DAIWATER INVESTMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

(Registered Number 10738347)

Daiwater Investment Limited

Contents

Daiwater Investment Limited

Directors and advisers

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements except where noted, were as follows:

Neeti Anand (appointed 1 April 2021, resigned 24 November 2021)
Marissa Dardi (appointed 24 November 2021)
Tom Goossens (resigned 1 April 2021)
Jaroslava Korpanec (resigned 1 July 2021, re-appointed 4 January 2022, resigned 1 August 2022)
Michael Osborne (appointed 24 November 2021)
Anthony Roper (resigned 31 March 2022)
Angela Roshier
Scott Springett (resigned 30 June 2021)
Roxana Tataru (appointed 1 July 2021)

Company secretary

Sunita Kaushal

Registered office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditors

PricewaterhouseCoopers LLP
40 Clarendon Road
Watford
Hertfordshire
WD17 1JJ

Registered number

10738347

Daiwater Investment Limited

Board’s welcome

A view on the water industry

In setting the context for this report, we would like to start by highlighting one of the key issues facing the water industry today. It owns and uses major assets and infrastructure that require continual investment overseen through the regulatory process, to keep them fit for the future.

While there is much that can be achieved in the short term to improve productivity and service through innovation and technology, inevitably long-term investment is required for the benefit of future generations. Investing for the future at a time of rising cost of living creates real tension. Its impact on the communities we serve is something of which we are acutely aware. So, it is important that, while we continue to invest, we also support those most in need and we are pleased that our teams at Affinity Water have embraced partnership working across sectors to raise awareness of our support services amongst hard-to-reach groups.

In addition, water is a national issue and not one that is ultimately seen as a company by company or region by region problem. Water companies must be a part of creating a national infrastructure. As we move into the planning period for the next price review (PR24) and develop water resources management plans, it is correct that the emphasis should be on coordinating resources, through the mechanisms Ofwat has set up.

To this effect, Affinity Water has been working very closely with other water companies across regions for a number of years, such as Water Resources South East, Water Resources East and Water Resources West. In January 2022, Water Resources South East published the first ever regional water resources plan consultation, which highlighted the action we must take collectively to ensure a long-term sustainable supply of water that is resilient to the effects of climate change and meets the demands of a growing population. The plan includes a number of options to address future challenges and highlights the need for new infrastructure, such as reservoirs and increasing our ability to move water around the country more efficiently. We are already taking steps on this and will be launching a new conditioning facility at our treatment works in Sundon by 2025. This will allow us to take more water from a reservoir operated by Anglian Water and reduce our reliance on chalk groundwater in the Chilterns.

We are targeting to reduce abstraction from groundwater by 27 million litres a day (Ml/d) in this regulatory period, AMP7, taking our total abstraction reduction to almost 100 Ml/d since the 1990s.

This is an incredibly important step. It means Affinity Water and other water companies are looking beyond being a steward of the pipes and pumps in their respective regions to become custodians of the wider national infrastructure that is critical to safeguard public supplies and the broader environment under threat by demographic and climate change. In our case, we want to help protect our globally rare chalk streams. New infrastructure and reducing leakage is critical to that goal. However, these things in isolation will not get us to where we need to be. Using water wisely is something that we are all responsible for, and we need to support and encourage customers to play their part too. To earn the right to be an ambassador for change, we need to demonstrate to our customers we are meeting our performance commitments. Our region has the highest per capita consumption in the country and the most-limited natural sources of water, so we need to be a catalyst to change behaviour in how society understands and uses water.

To reduce the water taken out of the chalk streams, we need to plan adaptively and over the long term. How, for instance, do we create the inter-regional networks and other infrastructure that will allow this, if consumers choose not to reduce their consumption, and with the population growing? Asking people to use less water is critical, but the marginal cost of water is low, so mechanisms such as meters and tariffs will only take us so far, particularly in relatively wealthy communities. It becomes a moral responsibility, asking people to use less water as part of a broader societal picture – although dealing with matters like leakage is part of winning the hearts and minds. It requires organisations, customers and government to work together if we are to achieve our long-term objective of 110 litres per person per day. Legislation will be required on water fittings, water consumption in new housing and the volume of water used by white goods.

Daiwater Investment Limited

Board's Welcome (continued)

Group performance

Over the year, the group has continued to focus on achieving its strategic objectives, which are chiefly those of its trading subsidiary: Affinity Water Limited.

The subsidiary has made very clear progress towards its targets and, although it has not achieved them all, there is a clear trajectory towards delivering them over its Business Plan 2020 – 2025 period, giving it a firm foundation for PR24.

While fulfilling environmental responsibilities is the 'day job', it is worth noting that the subsidiary has made good progress on its work to manage chalk streams, and it is close to finalising a practical plan to become a net zero business.

On the social responsibility side, the health, safety and wellbeing of its people is a top priority. The subsidiary has made tangible progress in wellbeing with a particular focus on mental health. With the cost of living crisis evolving, the subsidiary is exploring ways it can further support its people. In the last year it has focused on the culture of safety in the business, building on the policies, procedures and working practices that underpin safety. Progress has been made in its approach to diversity and inclusion with actions and plans set to evolve this over time. There is an emerging sense of how Affinity Water has a role as a community business and that starts with how it takes care of its own people as well as the wider population in its region.

The Board

The Board has had to make some very difficult decisions over the past year to ensure the subsidiary had the right leadership in place to take it to PR24 and beyond. We would like to thank Stuart Ledger for his contribution as interim Chief Executive Officer, as we look to welcome Keith Haslett in the coming months. With the appointment of a new Chief Executive and senior management team, we are confident this has been the right decision to get the subsidiary to where it needs to be on performance, for PR24 and the longer term.

As for day-to-day matters, the Board has always been good at getting out and seeing the business and meeting people. For the past two years this has not been so easy, and we have not done as much as we would like to have done. But in the coming year, we are very much looking forward to getting around the business and our communities much more, both as a Board and as individuals. Furthermore, the non-executive directors have been engaged in the planning and customer engagement process for PR24 and in the development of our Strategic Direction Statement and our longer-term investment plans and will continue to do so over the next year and beyond.

Our people

Our employees are delivering a critical public service, and they do it with a sense of commitment to the community that is quite outstanding. Whether responding to an emergency on a cold Saturday night to get people's water back on, or dealing diligently with billing issues, there is a sense of purpose throughout the organisation. Our people are tremendously loyal to the company, but also to the community. They are a credit to the company, and we thank them for that.

Outlook

One of our key priorities is increased clarity on the investment in our assets we will need to make, not just in the next five years, but in the next 25 years. That is part of the regulatory process, and also a major part of our planning in the next 12 months. As for performance, we are pleased with the improvements we have seen recently, and we expect the Executive Team, under Keith's lead to continue on this trajectory.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2022

Introduction

The directors present their strategic report on Daiwater Investment Limited for the year ended 31 March 2022.

Daiwater Investment Limited invests in and manages long term interests in the water industry in the United Kingdom (UK).

Affinity Water Limited is the only trading subsidiary of the group for the current year and prior year.

Affinity Water Limited owns and manages the water assets and network in an area of approximately 4,500km^2 split over three regions, comprising eight water resource zones, in the South East of England.

Affinity Water Limited supplies high quality drinking water to communities within the South East of England. It:

- supplies on average 936 million litres of water a day to around 3.86 million people, serving 1.48 million properties;
- operates 91 water treatment works to ensure that water is of the highest quality; and
- distributes water through a network of over 16,900km of mains.

Information on Affinity Water Limited's purpose and business model are detailed in the strategic report of its own Annual Report and Financial Statements for the year ended 31 March 2022 on its website: *affinitywater.co.uk/library*.

The holding companies within the Daiwater Investment Limited group have commenced a project to simplify the group structure by way of the following steps:

1) forgiveness of intragroup loan notes, together with interest obligations;
2) a capital reduction by way of solvency statements; and
3) a horizontal restructure of the holding companies to become direct subsidiaries of Daiwater Investment Limited.

Step 1) in the above points was completed during the year ended 31 March 2021. Step 2) was completed during 2021/22 and is reflected in these financial statements. Step 3) will be completed in the year ending 31 March 2023. Following completion of steps 1), 2) and 3) above, the directors propose to liquidate the relevant holding companies; Affinity Water Acquisitions (Investments) Limited, Affinity Water Acquisitions (Holdco) Limited, Affinity Water Acquisitions (Midco) Limited and Affinity Water Acquisitions Limited.

Performance

The group generated a loss for the year of £99,505,000 (2021 (restated): £38,493,000 loss). The statements of financial position detailed on pages 64 and 65 show shareholders' funds as at 31 March 2022 amounting to £452,592,000 (2021 (restated): £530,626,000) for the group and £747,907,000 (2021: £747,907,000) for the company.

As both the financial and operational results of the group are primarily determined by the results of its trading subsidiary, Affinity Water Limited, the operational and financial performance indicators and targets for the group are those of Affinity Water Limited. These performance indicators, and the performance of Affinity Water Limited for 2021/22 against targets set, are provided in detail in the strategic report of its own Annual Report and Financial Statements for the year ended 31 March 2022 on its website: *affinitywater.co.uk/library*.

Purpose, values and culture

The purpose of Affinity Water Limited is to provide high quality drinking water and take care of the environment for its communities now and in the future. Information on Affinity Water Limited's purpose and business model are detailed in the strategic report of its own Annual Report and Financial Statements for the year ended 31 March 2022 on its website: *affinitywater.co.uk/library*.

Risk management

The group has an established framework for identifying, evaluating and managing its key risks. Its main aim is to foster a culture where teams throughout the business manage risks as part of their management of day-to-day operations. The main risks of the group for the year ended 31 March 2022 are those of its trading subsidiary, Affinity Water Limited, and hence this section focuses on the risks and uncertainties of Affinity Water Limited (referred to as the 'subsidiary' throughout the remainder of this section). The subsidiary's Executive Management Team (EMT) also carries out regular assessments of emerging risks, including horizon scanning and monitoring of early warning indicators.

Operational risks are reviewed and prioritised on a quarterly basis in the context of existing controls. Where risks fall outside of risk appetite, action plans are prepared to implement further mitigations, and these are carefully monitored to ensure they are completed and provide the desired mitigation. The most significant risks are raised for review by the EMT and may be added to the strategic risk register, which is reviewed by the Board and the Audit, Risk and Assurance Committee. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

Emerging risks

The group has defined emerging risks as potential future events or circumstances that could significantly and negatively impact achievement of our strategic objectives and whose likelihood and impact cannot yet be accurately determined.

As part of the group's overall risk management framework, it carries out regular horizon scanning and analysis of various early warning indicators to identify newly emerging risks and determine if any previously identified emerging risks are increasingly likely to become real current operational risks. Where this is the case, such risks will be subject to the same rigorous process described above to evaluate and manage them.

The EMT of the subsidiary holds regular sessions to identify and review current and emerging risks. Along with the strategic risks, these are reviewed at least quarterly by the EMT and at least biannually by the Board.

The group's current emerging risks are as follows:

A. Failure to respond to shifts in societal and political expectations, and perceptions and rising levels of activism.
B. Skills gaps or unavailability due to a tight labour market and increasingly nomadic workforce combined with economic uncertainty.
C. Changes to our supply chain and to the water sector arising from Brexit, ongoing conflict in Europe, changed working patterns and economic uncertainty.
D. Changes to the power industry, including regional differences in pricing and reliability of service.

The group will continue to keep these and other emerging risks under regular and close review.

Climate change

Climate change is one of the greatest challenges for the whole industry and this challenge appears likely to increase in the future. Sustainability and resilience in the light of this challenge is important in maintaining the trust of our customers and regulators.

Climate change can have short and long-term impacts on our assets, operations and the services the group provides. The most recent significant example was the extreme weather the UK experienced in March 2018. While we dealt with it effectively and efficiently, we took the opportunity to review and revise our business continuity and emergency response arrangements.

The group has identified climate change as an underlying cause of many of the principal risks listed below, particularly 2, 5 and 7. The group has also documented in its risk registers, where appropriate, controls in place to mitigate as far as possible the potential effects of climate change in elevating those risks. The group will continue to monitor climate change and its impacts on its operations as well as the effectiveness and efficiency of its mitigating controls, with the objective of ensuring our ongoing sustainability and resilience.

On a positive note, the group fully embraces the part it has to play in combating the effects of climate change.

Principal risks

The following have been identified from the risk management analysis as potentially having material adverse effects on the group's business, financial condition, results of operations and reputation. They are managed as described but are not always wholly within the group's control and may still result in material adverse impacts. Factors other than those listed could also have a material adverse effect on the group's business activities.

We have identified 15 principal risks to our business in three categories:

Operational risks

1. Some of the subsidiary's work activities could cause serious harm to its employees, contractors or members of the public
2. The subsidiary may fail to meet its obligations to provide a sufficient supply of high-quality drinking water
3. The subsidiary may fail to attract, develop and retain employees with the competencies, values and behaviours required to deliver its strategic plans and objectives
4. Availability, confidentiality or quality of information or data could become compromised
5. The subsidiary may fail to deliver its business plan, commitments and service to customers
6. The subsidiary's supply chain may fail to deliver the goods and services it needs to operate its business
7. i) The subsidiary could cause damage to the environment during its business activities; or ii) climate change and other environmental factors could negatively impact its business operations
8. The subsidiary may fail to implement the cultural and operational transformation of its business necessary to deliver its business ambitions
9. A significant disruptive event could impact the subsidiary's ability to deliver normal business activities
10. The health of the subsidiary's assets may deteriorate such that water supply or quality is compromised

Principal risks (continued)

Regulatory risks

11. Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on the subsidiary's operational or financial performance
12. The subsidiary may inadvertently fail to comply with laws and obligations under its instrument of appointment, legal, compliance or business obligations
13. The subsidiary could fail to achieve a satisfactory outcome from the price review (PR24)

Financial risks

14. The subsidiary could fail to maintain or renew appropriate financing for its business activities
15. Macro-economic factors (interest rate, inflation and tax risks) could have a material adverse effect on the subsidiary's financial performance

The group's risk management framework defines its methodology for assessing likelihood and impact scores for its strategic and operational risks. To determine impact scores the group considers the estimated extent of various types of consequences, including health and safety, people, financial, and reputational. Likelihood scores are assessed based on the estimated frequency of occurrence and probability of occurrence within a five-year period.

The following pages describe these risks in more detail, including descriptions of the main mitigating controls which the group has operated throughout the financial year.

Main changes since 2020/21

This year the group has added the following risk to its report:

13. Failure to achieve a satisfactory outcome from the price review (PR24)

Planning and preparation is well underway for the next price review process, PR24. Learning from previous AMPs, we recognise that it is imperative that PR24 enables us to continue with the investment plans currently ongoing to deliver improved water quality, resilience, and environmental enhancements. Should we fail to obtain a satisfactory outcome from PR24 then our ability to meet our targets for investment may be limited, with consequent impact on customer experience.

Significant disruptive events

Now that the threat from Covid-19 is receding, the subsidiary has revisited the risk relating to pandemic. It has recognised that the pandemic is not the only significant macro-scale business disruption that it may face and has broadened the risk description to include war, terrorism and significant weather events. The subsidiary's business continuity arrangements must remain ready to deal with any such impact to the business and must ensure we are able to respond quickly and effectively to ensure continuity of service while ensuring the health and wellbeing of its employees.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2022 (continued)

Operational risks

1. Some of the subsidiary's work activities could cause serious harm to its employees, contractors or members of the public	
Risk: Failing to manage dangerous working practices may result in personal injury or occupational ill-health, disruption to operations, reputational damage, criminal fines, civil damages or regulatory penalties.	**Mitigation:** The subsidiary seeks to operate its business using its health and safety management system, which is externally verified and certified to ISO 45001. This encompasses policies, procedures, guidance and risk assessment protocols. The subsidiary provides its employees with appropriate training to enable them to take personal responsibility for their own safety, occupational health and wellbeing, and that of others. This training includes regular safety related communications, safety briefings, toolbox talks, safety stand down days and promoting safety leadership evaluations and safety conversations across the organisation. The subsidiary has an established governance framework where health and safety related matters and performance are tracked and monitored, spanning operational, Executive Management Team and Board levels. The subsidiary has an audit and inspection regime and incident review protocols in place to ensure key learnings are captured and any necessary strengthening of controls is actioned appropriately. The subsidiary also has a programme of health surveillance assessments, wellbeing initiatives and an employee assistance programme to help ensure the welfare and wellbeing of its people are effectively managed.
2. The subsidiary may fail to meet its obligations to provide a sufficient supply of high-quality drinking water	
Risk: The subsidiary has a legal requirement to maintain a continuous supply of wholesome drinking water for customers, this is critical to public health and to the overall success of its business. Failure to achieve this could result in consumers losing confidence in their drinking water, and legal and reputational risks for the subsidiary's business. Key causes could include: • Unplanned asset outage e.g., pumping station outage or a mains burst; • Short-term demand outstripping ability to supply e.g., peak summer events or large commercial users; • Longer-term supply and demand arising from population growth and water abstraction rules; and • Interruptions to supply (or supply restrictions) could impact on the health, safety and security of our people and communities, and on our financial position and reputation. We operate in an area of significant water stress. This, coupled with high demand (PCC) from our consumers, housing and other developments in the South East, the construction of the HS2 railway, and other potential large capital infrastructure projects, have the potential to further increase this risk.	**Mitigation:** The subsidiary manages this risk through careful supply and demand planning over the short and medium term and have developed a long-term water resources management plan (WRMP), which identifies, over a 60-year period, how we will balance available supplies and required demand with sufficient headroom for unplanned outage. The subsidiary strives to manage customer demand through education and water saving programmes, which include compulsory water metering. Central elements of day-to-day operations involve asset maintenance, investment and risk management, improving resilience through measures such as removing single points of failure and increasing connectivity of the network. In the event of an emergency, we have well-tested contingency and emergency response plans to ensure minimal disruption to our customers.

Strategic report
for the year ended 31 March 2022 (continued)

Operational risks (continued)

3. The subsidiary may fail to attract, develop and retain employees with the competencies, values and behaviours required to deliver its strategic plans and objectives	
Risk: Inability to attract and retain competent and high-performing individuals in the organisation at all levels and that they are motivated and engaged to deliver the business objectives.	**Mitigation:** Our people strategy is designed to ensure that we can attract, retain, develop and motivate the people within our business to deliver our business objectives. The subsidiary has a dedicated recruitment team that uses direct resourcing methods and works with recruitment suppliers to ensure good quality candidates are sourced. The use of the subsidiary's website and new careers site is crucial in providing a strong Employee Value Proposition that will attract talent into the business. The subsidiary also operates a range of apprenticeships to bring in to and develop people through our business. Current projects to improve attraction and retention of staff include: • Development of a strategic workforce plan to identify the skills that will be needed by the business in the medium to long term, so that appropriate resourcing, talent pipelines and development plans can be implemented; • Projects to improve the recruitment experience, provide consistency of role definitions, create job families, career pathways and competency frameworks; • Focus on corporate culture, employee engagement, equality, diversity, inclusion and wellbeing, and leadership development; and • Revised and simplified performance management processes to help drive performance levels and achieve business objectives.
4. Availability, confidentiality or quality of information or data could become compromised	
Risk: In an ever increasingly connected world, and as a business involved in the delivery of critical national infrastructure, we are at risk of malicious attempts to access our data, information and systems by third parties. In addition, a failure to put appropriate measures in place to protect our business and customers from physical, cyber and personal security breaches could result in unauthorised disclosure and harm to our customers, colleagues and business operations.	**Mitigation:** The subsidiary continues to strengthen its capabilities to ensure that technical and organisational controls to prevent the unauthorised disclosure, loss or improper use of data are kept under review and improved where appropriate. The subsidiary has a clear cyber strategy, which is driven by the requirements of the security of networks and information systems regulations directive and funded through our AMP7 delivery programme. Underpinned by continuous improvement activity to our processes, systems and colleagues, training covered our firewalls, vulnerability management, incident management and supplier assessments. The subsidiary continues to monitor and enhance its information security management system, designed to protect us against current and future threats. Privacy impact assessments are carried out for all projects. Where any opportunities are identified, we ensure appropriate action is taken. Alignment with ISO 27001, the global information security standard, demonstrates our commitment to security best practices and ensures that we meet relevant regulatory requirements. Affinity Water currently has an ISO 27001 cybersecurity rating of 3, and we aim to achieve a rating of 4 out of 5 by the end of this AMP.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2022 (continued)

Operational risks (continued)

5. The subsidiary may fail to deliver its business plan, commitments and service to customers	
Risk: The subsidiary has made several performance commitments in its business plan, which, if not met, may result in us incurring financial penalties and suffering reputational damage in the eyes of our regulators and other stakeholders. In addition, we must implement the investment programme set out in our business plan. Failure to do so may lead to the imposition of sanctions, including financial penalties or other enforcement action. It is also crucial that the subsidiary provides consistently high levels of service to all customers and that they are demonstrably satisfied that we are doing so. Failure to maintain and continually improve our levels of service in the eyes of our customers will severely impact customer satisfaction levels, volumes of complaints, and our reputation.	**Mitigation:** The subsidiary has an established asset management function with responsibility for delivering the investment programme. The Board and senior management team monitor performance and ensure that corrective action is taken when required. We continually monitor our performance on a wide range of metrics and commitments and take prompt corrective action to address any indicators of underperformance. We continue to actively manage engagement with all our regulators and other stakeholders. We work closely with our Customer Challenge Group (CCG), an independent body with an independent chair, which advises, challenges and supports us in the development of our plans, to ensure that they reflect customers' priorities. The subsidiary adopts a continuous improvement strategy for customer service. We have implemented a company-wide business excellence programme, utilising Lean/Six Sigma to drive a culture of continuous improvement of all business processes. The subsidiary continues to invest in new technologies and ways of working, which will help standardise how we work and ensure our customers receive a consistent experience regardless of where they interact with us – either online, on the telephone, or in their home and local community. The subsidiary is delighted to have launched its water community with a cross representation of all our customer segments and regions who are providing valuable insight, which is shaping our everyday decision making while also continuing our planning for PR24. In addition, we have invested in new capabilities to allow us to measure real-time customer expectations to ensure we are able to take action, improve processes, systems or colleague training to deliver the experience and levels of service our customers expect.

Strategic report
for the year ended 31 March 2022 (continued)

Operational risks (continued)

<table>
<tr><td colspan="2">6. The subsidiary’s supply chain may fail to deliver the goods and services it needs to operate its business</td></tr>
<tr><td>Risk: The subsidiary continues to face challenges regarding the supply of certain chemicals that are essential for its water treatment processes.

Much of our capital delivery programme and field activity in our Central region is outsourced to third parties. Existing contractors could have limited capacity to take on additional work due to the volume of large-scale infrastructure projects in and around some of our operational areas.</td><td>Mitigation: The subsidiary seeks to ensure that its relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, we may retain more than one supplier to mitigate the risk of supplier failure. We also undertake significant due diligence in the selection and ongoing management of suppliers through audit, inspection and verification of performance. The approach has been tested during the recent turbulence in the wider macro-economic climate and other socio-economic upheaval. It has proved resilient with no adverse impact on company objectives.

The subsidiary continues to work with other companies in the industry to address the short-term and long-term challenges associated with supply of water treatment chemicals in the UK.</td></tr>
<tr><td colspan="2">7. (i) The subsidiary could cause damage to the environment during its business activities; or (ii) climate change and other environmental factors could negatively impact its business operations</td></tr>
<tr><td>Risk: There is a risk that, while operating our business, an incident occurs that inadvertently causes damage to the environment. Such an incident could cause pollution or other environmental damage, impact our Environmental Performance Assessment scores and cause financial and reputational impacts.

The subsidiary is exposed to the possibility of damage to its landholdings, assets and ability to supply wholesome water caused by emerging global issues such as climate change, ecosystem decline, nearby land-use change (e.g., development or agricultural practices), carbon climate and third-party pollution events. Any of these could lead to increased operational costs, damage to our reputation, prosecution, loss of customer trust and/or operational disruption.</td><td>Mitigation: The subsidiary’s environmental ambition is to leave the environment in a sustainable and measurably improved state. We are committed to protection of the environment, prevention of pollution and compliance with environmental legislation, regulations and other requirements that are applicable to us.

To deliver on our commitment, we have set ourselves a range of objectives to protect and enhance the environment, which include being certified to ISO 9001 (Quality) and ISO 14001 (Environmental) management systems and always striving for continuous improvement in our processes, systems and activities, minimising the waste we produce and the energy we consume. We work with farmers and communities to control the risk of environmental pollution from third-party activities.

We have a number of other environmental control systems and processes that include landholdings management plans, catchment management programme, drinking water safety plans, our compliance risk index (CRI) programme, our carbon reduction strategy and biodiversity programme.</td></tr>
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Operational risks (continued)

8. The subsidiary may fail to implement the cultural and operational transformation of its business necessary to deliver its business ambitions	
Risk: There is a risk that the changes to our organisational structure and business processes are insufficient to deliver the desired transformation necessary to deliver our business ambitions	**Mitigation:** The subsidiary is in the midst of a cultural transformation programme to ensure, amongst other things, that we have a culture where our people are comfortable and embrace the significant changes necessary to make the required changes to deliver our plan to the end of AMP7. We have a well-established and rigorous project methodology in place to govern how we deliver our programmes and projects. Our Investment Committee reviews all proposed projects before initiation and monitors their delivery to ensure successful outcomes. New projects are approved by reference to available finances, people and other resources as appropriate.
9. A significant disruptive event could impact the subsidiary's ability to deliver normal business activities	
Risk: The subsidiary's ability to effectively and efficiently deliver the services that our customers expect could be significantly impacted by an extreme disruptive event, such as catastrophic loss of assets, extreme weather events beyond our current capacity to manage, terrorist attack or extended periods of pandemic or war.	**Mitigation:** The subsidiary maintains an emergency response team to deal with the various issues that put the company or its customers at risk. These high-level procedures are maintained and reviewed on a regular basis. Each event, including the recent pandemic, is subject to a learning review and long-term resilience plans are updated through the outcome of these learning sessions. These improvements are proposed to the investment teams for improvement or corrective actions that add to the subsidiary's resilience. Business continuity planning is based on the guidance of ISO 22301:2019 and our emergency preparedness is assessed as part of our ISO 9001:2015 certification for assurance purposes. The subsidiary maintains a 24-hour rota to ensure emergency management is available should an event occur. The subsidiary maintains a close working relationship with the relevant local resilience forums (LRFs) organised through local government authorities to meet the requirements of the Civil Contingencies Act (CCA) 2004 and Security and Emergency Measures Direction (SEMD) 2022. The subsidiary regularly engages with Water UK on risks and has representation on the National Incident Management team (NIM) for dealing with tactical responses to national or regional issues, involving DEFRA and other government departments or agencies, and on the Platinum Incident Management team (PIM) for implementing agreed industry strategies in our organisation.
10. The health of the subsidiary's assets may deteriorate such that water supply or quality is compromised	
Risk: The health of the subsidiary's assets is critical in facilitating the ongoing supply of sufficient quantities of high-quality water to its customers and ensuring the operational resilience of the business. The health of its assets is also important in ensuring that they can be operated safely by its employees.	**Mitigation:** The maintenance of our existing assets to maintain service to customers is funded from the base capital maintenance element of our regulatory settlement; for 2021/22 this was just over £100 million. Unlike some other areas, we have autonomy to decide how to allocate funds to best deliver our performance commitments. We use a 'risk and value' based approach to inform our decision making, which enables us to prioritise investment to those areas that most need it. This year, we are very proud to have delivered one of the best Compliance Risk Index (CRI) scores in the industry – a testament to how we have prioritised and delivered water quality related investments. In support of this, we are working on enhancing the accuracy and completeness of our data and the suite of asset health metrics we use to measure risk. We have recently moved our below ground (infrastructure) assets onto the same risk management process as our above ground (non-infrastructure) assets, so we now have a single view of our emerging asset risks in one place.

Regulatory risks

11. Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on the subsidiary's operational or financial performance	
Risk: Changes to the regulatory framework by Ofwat or the Government may have an adverse effect on the subsidiary's operational or financial performance. The subsidiary is also exposed to risks arising from the general social and political climate, for example, debate around the merits of the current water ownership model, political pressure to restrict price increases and other issues, such as the adequacy of its WRMP and some objections to compulsory water metering. These pressures may lead to a reduction in revenue or have a reputational impact. Nationalisation has fallen down the political agenda, but political risk remains high due to continued scrutiny of the industry.	**Mitigation:** The subsidiary continues to contribute fully to consultations with its regulators and seek to ensure its voice is heard on emerging changes through strong relationships with all its stakeholders. The subsidiary continues to engage with its stakeholders and their representatives to understand and respond to their issues and concerns. The subsidiary regularly engages with stakeholders across the political spectrum to understand and mitigate political risk.

12. The subsidiary may fail to comply with laws and obligations under its instrument of appointment, legal, compliance or business obligations	
Risk: The subsidiary needs to ensure that its activities and outputs comply with licence conditions or statutory requirements arising from its appointment, as well as all other applicable laws and standards. Failure to do so may result in an enforcement order, a fine up to 10% of appointed turnover or termination of our appointment and special administration.	**Mitigation:** Priority legal requirements are captured in a centralised register, which is regularly reviewed by senior management, to ensure we are aware of all relevant obligations. This register provides a reference point for the compliance returns process whereby the executives provide a declaration their teams are compliant with relevant procedures and controls, or otherwise record any risk of non-compliance for areas of the business they are accountable for. An action plan is required to address any heightened risk of non-compliance in appropriate timeframes. All remaining legal or compliance requirements are managed through the application of regular internal review, standard operating procedures, compulsory online training and a risk reporting process designed to highlight and manage areas of concern appropriately. The subsidiary continues to operate its abstraction, treatment and supply activities to environmental standard ISO 14001 and has adopted the principles of other relevant management systems and standards. Its compliance programme is designed to ensure that: • all employees are adequately educated on the legislation and regulations particularly relevant to their specific job roles; and • appropriate assurance activities are in operation to provide positive evidence of compliance.

Strategic report
for the year ended 31 March 2022 (continued)

Regulatory risks (continued)

13. The subsidiary could fail to achieve a satisfactory outcome from the price review (PR24)	
Risk: The price review process sets the revenue, allowed investment and required performance for the next five-year period – in this case 2025–30. The review includes all aspects of the regulated business and a failure to adequately plan and resource the process could lead to a poor outcome for Affinity Water. The impacts would include insufficient investment allowed in order to meet customer expectations, our obligations and required performance levels.	**Mitigation:** The subsidiary has resourced its PR24 team; planning for the business plan submission in October 2023 is well under way. It is fully engaged with Ofwat through the various working groups, consultations and discussion papers that they have issued, and has responded to the draft methodology in summer 2022. The subsidiary continues to focus on performance within the current period to ensure it is in the best possible position both to develop and submit its business plan, and also to transition into the next AMP in April 2025.

Financial risks

14. The subsidiary could fail to maintain or renew appropriate financing for its business activities	
Risk: The subsidiary's business has an ongoing liquidity requirement, driven by the operational costs of the business and its substantial capital investment programme. This results in liquidity risk if it is unable to meet its cash flow requirements as and when they fall due. The subsidiary is subject to several covenants in relation to its borrowings. If a covenant is breached, this could lead to a default with any outstanding borrowings becoming immediately repayable. This could also impact its ability to raise funds on sufficiently favourable terms in the future.	**Mitigation:** The subsidiary has undrawn revolving loan facilities, cash balances and standby loan facilities to meet its forecast cash flow needs. The subsidiary's treasury policy requires it to maintain a minimum level of liquidity capable of covering at least 12 months of forecast cash flow requirements. Longer-term financing needs are sourced from the private and public bond markets. As at 31 March 2022, the subsidiary had cash balances of £205.8 million. It has £14.2 million of debt maturing in AMP7 and a spread of maturity beyond this. The next major refinancing exercise is scheduled for July 2026 when its £250 million fixed rate bond matures. The subsidiary's credit ratings remain investment grade, and its policy is to maintain a diverse portfolio of counterparties through which it can access liquidity at all times. This ensures it is not reliant on any single treasury counterparty. The subsidiary has a regular monitoring and certification process of the financial covenants within its Whole Business Securitisation (WBS) documentation. This covers information, financial and general covenants. The subsidiary's treasury policy requires that financial covenants, which include gearing and interest cover ratios, are monitored and reported to the Board on a regular basis. The subsidiary continues to maintain investment grade credit ratings with credit rating agencies.

Financial risks (continued)

15. Macro-economic factors (interest rate, inflation and tax risks) could have a material adverse effect on the subsidiary's financial performance	
Risk: Energy costs are a significant part of the subsidiary's cost base and are subject to market price movements. Since mid-2021, the price of energy in the spot and forward market has increased significantly, which has increased the subsidiary's costs. Movements in interest rates can result in an increase in the cost of our debt both now and in the future. Our wholesale revenues in a given financial year are explicitly linked to the CPIH published the previous November. An inability to control our cost inflation on the same basis would lead to a reduction in the company's profitability. Our Regulatory Capital Value (RCV) is also linked to inflation and nominal returns are therefore likely to be further reduced in a low inflation environment. We operate a pension plan providing defined benefits based on final pensionable salary. The assets and liabilities within the plan depend on several external factors outside our control, including performance of equity markets, interest rates and future inflation, which may increase the cost of our cash contributions. Customer debt and affordability remain key areas of focus for our business. A downturn in the economy or a reduction in consumer income (real terms) may lead to an increase in unpaid water customer bills. We are not permitted to disconnect water supplies to household and certain other types of premises in the event of non-payment, resulting in loss of revenue and increased cost of collection.	**Mitigation:** Energy price fluctuations are mitigated in two ways: firstly, by implementing efficiency programmes to reduce the amount of energy we use. Secondly, by developing self-generating assets (solar) to reduce our reliance on grid imported energy. We have already energised our first solar arrays and aim to produce c.10% of our annual energy requirement from solar by 2025. We purchase energy in the forward market to achieve cost certainty and reduce the likelihood of needing to purchase during highly volatile periods. Interest rate risk is primarily managed by using a mixture of fixed-rate and inflation-linked borrowings, and approved hedging instruments (refer to note A4 to the financial statements for further information). We have a financial covenant within our WBS documentation stipulating that at least 85% of our outstanding debt is hedged against movements in interest rates. Interest rate risk is monitored and reported on a regular basis to the Board. Inflation risk in our costs is managed through undertaking a robust and challenging budgeting process to ensure costs are clearly understood and subsequently controlled during the financial year. We also use inflation-linked debt to ensure a proportion of our interest costs are linked to inflation and, therefore, offsets an element of the reduction in revenue and RCV that results from lower inflation. We now have inflation-linked swaps with a notional value of £250 million (CPI) and £210 million (RPI). The proportion of debt linked to inflation is now 80.8% (2021: 80.8%). The defined benefit pension plan has been closed to new members since September 2004, and the assets of the plan are held separately from those of the company. The plan is in surplus on an accounting basis (refer to notes 10 and A5 to the financial statements) and the latest actuarial valuation of the defined benefit section of the Affinity Water Pension Plan (AWPP) as at 31 December 2020, determined by an independent qualified actuary, concluded that the pension plan was 96% funded on a self-sufficiency basis. To eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the company agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022. This was formalised in a new schedule of contributions effective from July 2021. 90% of the interest rate and inflation risk associated with the plan's liabilities are hedged by the plan's assets through liability and cash flow driven investment. We have processes and teams dedicated to the efficient collection of customer debt and outsource to a number of debt collection agencies when the recovery of debt has been unsuccessful. For those customers who struggle to pay their bill, we have payment arrangements that are as flexible as possible, and we encourage customers who find themselves in difficulty to contact us as early as possible. We also have a social tariff (LIFT) to help support customers who are least able to pay their bills.

Strategic report
for the year ended 31 March 2022 (continued)

Operational performance

The group has aligned its operational KPIs to its key performance commitments in response to customer expectations. We want customers and stakeholders to be able to assess our track record and hold us to account. The group's principal trading subsidiary is required to report its performance against targets set by Ofwat, the DWI and Defra. These targets include the performance commitments made in its AMP7 Business Plan. The subsidiary's performance in relation to these targets for 2021/22 is analysed in the tables below. For more information on the subsidiary's performance for 2021/22 in relation to all the performance commitments made in its AMP7 Business Plan refer to its own regulatory Annual Performance Report.

Performance key:

increased   decreased   performance met   performance not met

KPI: Water quality CRI (Score)	
Actual: **0.87** Target: 2.0	The Compliance Risk Index (CRI) is a measure to inform the risk arising from treated water compliance failures. The subsidiary's score of 0.87 is its best performance against this measure to date, continuing the downward (improving) trend in performance seen over the last four years. While the ultimate target for water quality would be a score of 0, the score of 0.87 is likely to show it as one of the best performing companies in this important area of performance. Its thorough investigation of the exceedances resulted in very few recommendations from the DWI.
KPI: Leakage Average annual water leakage from our network (Ml/d)	
Actual: **10.5% (since base year)** Target: 11.1%	This measure is reported as a percentage reduction in a three-year average of leakage against a baseline level of 2017–20 average over three years. The subsidiary's leakage for the 12 months of 2021/22 was 161.5Ml/d; a reduction of 16.6Ml/d from the previous year. During the year, the subsidiary made significant investment in resources, applied new technologies and applied the new customer-side policy allowing free repairs on significant leaks. Despite this, it was unable to meet the three-year average reduction target of 11.1%. The subsidiary knew this would be a challenging year, due to the impact of the prior years' performance, combined with a steep target reduction of achieving an 8.4% drop in a single year (the largest reduction required in any year of the AMP7 period). However, the subsidiary is in a strong position for year three and is well placed to deliver on the remaining years of the AMP.
KPI: PCC Average water use (l/p/d)	
Actual: **4.1% reduction (157.9 l/p/d)** Target: 4.9% reduction (147.5 l/p/d)	During 2021/22, the subsidiary recorded PCC of 157.9 l/p/d, which is a reduction from 17l l/p/d recorded in 2020/21. However, this did not achieve the targeted reduction of 4.9% in the three-year average from the 2017–20 baseline. PCC is a measure of water usage in the home. The subsidiary's three-year average is heavily influenced by the unprecedented demand for water in the home seen in 2020/21. This level of demand was due the combination of hot summer weather and people staying at home due to the Covid-19 lockdown. The effect on PCC of people spending more time at home is still being felt, and is affecting performance, despite the significant reduction seen in 2021/22 compared to 2020/21. Water demand has not returned to pre-pandemic levels, but the subsidiary remains committed to reducing PCC by the required 12.5% at the end of the AMP period. The subsidiary has undertaken major campaigns over the year with its flagship SOS 'Save Our Streams' campaign, home water efficiency checks and innovation projects targeted to water use reduction.

Operational performance (continued)

KPI: C-MeX (Score)	
Actual: **14th** Target: mid table	Customer Measure of Experience (C-Mex) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. C-MeX is based on a league table comparison of performance by the other 17 water companies in England and Wales. The subsidiary's C-MeX score for 2021/22 was 76.57 against an industry median of 80.43. The rating represented an improvement on the prior year's performance, moving its position up one place in the company rankings. Although written complaints increased by 14.8% this was driven by the Universal Metering Programme installation rollout as, during 2021/22, the subsidiary installed over double than in the previous year. Whilst the increase in UMP installations has inevitably resulted in an increase in metering related contacts, the percentage of written complaints to meters installed remained at encouragingly low levels, and continues on a downward trajectory to 0.57%, down from 1.63% in 19/20 and 0.60% 20/21 The percentage of escalation (second stage complaints) has also fallen year-on-year – by 0.1% to 3.4% of written complaints.
KPI: D-MeX (Score)	
Actual: **8th** Target: mid table	Developer Measure of Experience (D-MeX) is the measure of levels of service in the developer services area of activity. The index score is made up of both a qualitative and a quantitative element. The subsidiary's D-MeX score during the year ended 31 March 2022 was 85.54 compared to an industry median of 85.26. The subsidiary was placed 8th out of 17 companies in the industry league table; an improvement from 10th in 2020/21, and 16th in the 2019/20 shadow reporting year. The subsidiary has seen consistent improvement in position quarter-on-quarter during this time.
KPI: Mains repairs (due to bursts) (Number per 1,000km mains)	
Actual: **100.2** Target: 148.6 or less	The subsidiary has comfortably met its target of ≤148.6 repairs per 1,000km of mains in the year. It should be noted the number of mains repairs required in any year is heavily influenced by weather, with extremes in both hot and cold weather adversely affecting mains burst rates. In this respect, weather in 2021/22 was unusually benign, while that experienced in 2020/21 saw significant extremes of both hot and cold. By comparison, our 2020/21 'performance' was some 58% higher at 158.9 repairs per 1,000km of main. Mains repairs need to be viewed over a longer period to understand the overall trend where year-on-year peaks and troughs can be taken in account and the overall improving trend in performance understood. The subsidiary continues to focus on reducing night pressures, reducing volatility of its network, and continuing analysis of where and when bursts occur to inform its mains renewals programme. The subsidiary is working with the Met Office to develop a weather prediction tool to understand when the greatest risks to mains occur, during this time planned works can be postponed ensuring any undue pressure of the network is minimised.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2022 (continued)

Operational performance (continued)

KPI: Water Supply Interruptions > 3 hours (Average minutes per property, water supply interruption)	
Actual: **00:03:43** Target: 00:06:08	The subsidiary has, again, achieved the target for this measure, and further improved by over two minutes on our 2020/21 performance. This is a significant achievement. Considerable improvements have been made over the last few years, adopting a 'water always on' mentality and reducing our impact on customers. To put the improvements in performance into perspective, we were over 13 minutes in 2019/20 and over 32 minutes in 2017/18.
KPI: Properties at risk of low pressure (Number per 10,000 properties)	
Actual: **48.204** Target: 1.513	The subsidiary has not met the target of 1.513 properties at risk of low pressure per 10,000 properties, although the frequency and number of properties experiencing low pressure reduced considerably from that seen in 2020/21 (196.850 properties at risk). The high numbers seen in 2020/21 were predominantly the result of hot, dry weather in the summer of 2020, combined with the significant change in water consumption patterns and volumes during Covid-19 lockdown. These factors were not prominent during summer 2021. The subsidiary has more than 1,100 telemetered pressure monitoring devices installed at critical points across its network, so has a very good understanding and record of mains pressures. The basis of the common reporting guidance for properties at risk of receiving low pressure is now more than thirty years old, and dates to when data and understanding of mains pressures was very limited. Given this, and the number of pressure monitoring points that the subsidiary now has, it is unlikely it will ever be able to meet the prescribed target for this measure.
KPI: Unplanned interruptions to supply over 12 hours (Number of properties)	
Actual: **477** Target: 320 or less	Although a reduction on 2020/21 (538 properties), the subsidiary did not meet its target for unplanned interruptions lasting more than 12 hours. This is a disappointing result as it has been working hard to focus its resources to a 'water always on' mindset. The work that the subsidiary has undertaken in respect to supply interruptions has borne considerable improvements in the industry common metric of average minutes per connected property; however, the number of individual properties impacted for over 12 hours is still above committed performance. Some 421 of 477 properties were the result of a single major burst incident with no other option for maintaining the mains water supply to customers. The remaining 56 properties were the result of one-off property events such as a defective meter or a boundary stopcock being left turned off. Focus for the coming year remains on improving response times, increasing local resources and alternative methods of maintaining the water supply to customers properties.

Financial performance

KPI: Gearing (Ratio of net debt to RCV, %)	
Actual: **73.0** Internal threshold: 80.0	The subsidiary's gearing at 31 March 2022 continued its downward trend, being 3.0% lower than at 31 March 2021, and within its internal threshold of 80.0% allowing sufficient headroom within its gearing covenants. The subsidiary's net debt increased by £88.8m primarily due to accretion on its index-linked bonds, but this was more than offset by the increase in RCV of £175.2m due to its ongoing capital investment and inflationary increases.
KPI: Cash flow (Net cash flow before tax and financing)	
Actual: **-£16.1m outflow** Target: -£22.0m outflow	The subsidiary's net cash outflow of £16.1m (prior to a £12.1m adjustment to reflect additional revenue to be returned to customers in future years) was £31.2m lower than the prior year (2021: £15.1m inflow) primarily due to £31.3m increased net spend on assets, in line with its AMP7 investment commitments. Operating cash flows were broadly in line year on year, with increased operating profits being offset by a reduction in working capital in 2021/22.

Section 172(1) statement

Daiwater Investment Limited

The principal trading subsidiary Affinity Water Limited accounts for the vast majority of the group; the majority of the directors who sit on the Board of Daiwater Investment Limited sit on the Board of Affinity Water Limited and the day-to-day operation of the group is predominantly managed by employees of Affinity Water Limited. Due to this relationship, the group's values are highly integrated with that of Affinity Water Limited and therefore the statements below relating to Affinity Water Limited should be read on behalf of the group. References to company in the statement below refer to Affinity Water Limited.

Our stakeholders

The group's responsible business approach is the way it does business. It is centered on issues which are of importance to its customers and stakeholders and to the responsible delivery of its business plans. The group has had discussions with stakeholders across all areas of its business to better understand what matters most to them and how it can further involve them in its decision-making. The group focused on the following four areas: the environment, supply and demand, water efficiency and vulnerability with the aim of gathering information to inform its current and future strategy.

In the table on the following pages, we present a description of the group's and the Board's engagement activities with each key stakeholder group. The information obtained through these engagement activities enables the Board to weigh up all relevant factors when deciding on a course of action that best leads to the long-term success of the group. This can sometimes mean that certain stakeholders are adversely affected, as the group seeks to operate in an ethical and responsible manner in relation to all its stakeholders.

The Board considers, both individually and together, that it has acted in the way it considers, in good faith, would be most likely to promote the success of the group for the benefit of its members and as a whole having regard to its stakeholders and the following matters set out in section 172(1) (a-f) of the Companies Act 2006:

a. the likely consequences of any decision in the long term;
b. the interests of the company's employees;
c. the need to foster the company's business relationships with suppliers, customers and others;
d. the impact of the company's operations on the community and the environment;
e. the desirability of the company maintaining a reputation for high standards of business conduct; and
f. the need to act fairly between members of the company.

Section 172(1) statement (continued)

Our stakeholders (continued)

This statement explains how the Board satisfies itself that relationships with each key stakeholder group are managed effectively and that there is sufficient visibility of relevant stakeholder engagement activities in the boardroom to inform decision-making and delivery of strategy.

The Board's approach to section 172(1) and decision making

It is the responsibility of the Chair to enable discussions at Board meetings that lead to decisions being made which are sufficiently informed by section 172 factors. Board minutes record decisions made, and actions agreed in the context of these factors.

The Board's role in stakeholder engagement is to:

- ensure that our purpose, strategy and culture are set in the light of views actively sought from relevant stakeholders;
- set an expectation that all key decisions made take into consideration the views of relevant stakeholders;
- require executive directors and other senior managers to engage with relevant stakeholders in a way that ensures views are understood and taken into consideration when making key decisions;
- encourage executive directors and other senior managers to evolve stakeholder engagement in a way that meets all statutory and regulatory requirements but also embraces the principles on which these are based; and
- undertake direct stakeholder engagement that complements day-to-day stakeholder engagement by management.

In 2020/21, the Board's Schedule of Reserved Matters and each Board Committee's terms of reference were reviewed by the Board and updated to ensure that consideration of section 172 factors and Ofwat's 2019 Board leadership, transparency and governance principles were appropriately addressed. Directors are reminded of the section 172 requirements at the start of every Board meeting and undertook a training session delivered by external advisors on their responsibilities.

The group's approach to stakeholder engagement is:

Step 1: "Engagement strategy"
set vision and level of ambition for future engagement, and review past engagement

Step 2 "Stakeholder mapping"
define criteria for identifying and prioritising stakeholders, and select engagement mechanisms

Step 3 "Preparation"
focus on long-term goals to drive the approach, determine logistics for the engagement, and set the rules

Step 4 "Engagement"
conduct the engagement itself, ensuring equitable stakeholder treatment while remaining focused on priorities

Step 5 "Action plan"
identify opportunities from feedback and determine actions, revisit goals, and plan next steps for follow-up and future engagement.

Section 172(1) statement (continued)

Section 172(1) in action

In the table below, we present a description of the company's and the Board's role in engagement activities with each key stakeholder group.

Customers *Current and future customers, including household and non-household customers, and market participants such as retailers and self-lay providers, developers and NAVs*	**Communities** *Communities, non-governmental organisations and civil society, especially environmental organisations and campaigners*
Why engagement is important *Customers rely on water as an essential service and are at the heart of our business model. We aim to be a positive contributor to, and able to earn fair returns from, a reliable service that is trusted by and represents value for money for customers. Transparent conversations and engagement with the CCG will support delivery of our purpose and environmental ambitions*	Why engagement is important *These groups bring distinctive perspectives and influence on key environmental and social issues on behalf of customers and the public. Engagement will result in us being a progressive, well-regarded company that delivers its purpose and with which communities and civil society want to work in pursuit of common goals*
How the company engages • *Daily contact with customers* • *Customer research programme* • *Public meetings* • *Our website, including our specific Covid-19 page* • *Media/social media* • *Through our CCG*	How the company engages • *Stakeholder Assembly* • *Joint Forums* • *Public meetings* • *Consultation meetings for price review development* • *Catchment partnerships* • *Water resources monthly email updates* • *Volunteering days*
How the Board engages *Information reported to the Board:* • *The Board receives monthly performance summaries of our AMP7 performance commitments including leakage, PCC, C-MeX and D-MeX and supply interruptions, and other key metrics including customer satisfaction and written complaints* *Direct engagement mechanisms:* • *There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints* • *Chair of the CCG attended the Board Strategy meeting* • *In 2021/22 Board members met with the CCG Chair* • *Quarterly meeting with the CCG to discuss key performance metrics* *Customer protection:* *The Board considers the company's policies around the protection of customer data through its review of the strategic risk register and our GDPR policy which was made more engaging and user friendly in 2020/21*	How the Board engages *Information reported to the Board:* • *The Board receives monthly updates on community projects* • *The Board received updates on the proposed company rebranding, based on customer feedback received, and how this will impact customers and communities* *Direct engagement mechanisms:* • *Our Board-approved Community Engagement Strategy and activities are focused around three core areas:* o *Protecting rivers and habitats* o *Investing in science, technology, engineering and mathematics (STEM) and future skills* o *Developing community partnerships* *Throughout 2021/22, we continued to build on our social purpose and defining the programme of work that will help us meet the growing expectations of our stakeholders and add value to our communities* • *Board members attended key community events in 2021/22*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Employees
The workforce, including both employees and the wider workforce

Why engagement is important

Our success depends on the shared talents, skills and values of the people who work for our company, and our ability to attract and retain a talented and diverse future workforce

Successful engagement will mean we are an inclusive employer that retains and attracts people with the talent and skills to achieve our business objectives and whose make-up is aligned with the diversity of the communities we serve

How the company engages

- *Senior leadership forums*
- *Engagement surveys, including the changing working environment as a result of Covid-19*
- *Monthly one-to-one meetings and personal best check-ins three times a year*
- *Wellbeing fortnight focussing on mental health and wellbeing of employees*
- *Regular podcasts from the CEO*
- *Culture Ambassador forums to gain feedback and progress culture development initiatives*
- *Diversity and Inclusion Steering Group to drive a stronger agenda of inclusiveness*
- *Designated Director for Employee Engagement reporting issues and progress to the Board*
- *Internal communications and monthly team leader briefings communicated to all line managers*
- *Management Enhancement Program introduced, with a Manager Corporate Induction*
- *Covid-19 updates and an internal Covid-19 website for employees*
- *Customer Hero Awards to reward behaviours that support our principles*

How the Board engages

Information reported to the Board:

- *Following another Culture Survey in 2021/22, we have continued to drive cultural change across the business. Culture Ambassadors represent their departments in the rollout of cultural improvement and progress made. The Board received updates from engagement surveys conducted in the year*
- *Information on productivity, attrition levels, learning participation, training and development plans, wellbeing and output from exit interviews is reported monthly to the Board*
- *Whistleblowing incidents are reported to the Board. All incidents are taken extremely seriously and are thoroughly investigated, working with external reviewers if required*
- *Details on the company's return to work plans as a result of Covid-19 and the impact the pandemic had on employees*

Direct engagement mechanisms:

- *Trevor Didcock, Director of Employee Engagement is responsible for employee liaison in accordance with the Code. The overriding purpose of the role is to ensure that the voice of the workforce is heard and considered at Board level. A key secondary purpose is to improve the transparency of Board activities, discussion and decision-making and in so doing improve alignment between the Board and the workforce. Trevor attends the Culture Forums with Cultural Ambassadors from within the business, providing training to ambassadors, reporting and holding discussions of the corrective actions taken. Trevor is also a member of our Diversity and Inclusion Committee, established in 2019/20 to bring to life our commitment to build a more inclusive culture, allowing all members of our workforce to bring their true selves to work.*
- *All of our workforce are entitled to be trade union members. Our CFO is a member of the Joint Negotiation and Consultative Committee (JNCC) which, together with employee trade union representatives and other company nominated representatives, meets quarterly to consult on workforce practices and policies and negotiate workforce pay.*
- *The CEO met employees across the business to thank them for their work during the pandemic and understand the issues on the ground and the new ways of working*

Workforce policies and practices:

- *Refer to the governance report of Affinity Water Limited for further detail on workforce policies and practice and workforce concerns, and details of what the Board is doing about gender equality and reducing our gender pay gap.*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Shareholders *Owners of shares in the company*	**Regulators** *Regulators, including Ofwat, MOSL, EA, DWI, Defra, HSE, Natural England and CCW.* *Government – central and local government and MPs, highways authorities, Highways England and TfL*
Why engagement is important *Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business* *We aim to provide a reasonable long-term return on their investment*	Why engagement is important *To ensure we maintain our licence to operate and that our actions are in accordance with the framework determined by the Government and regulators* *Engagement will ensure that we are a responsible company which delivers on its purpose*
How the company engages • *Board meetings attended by shareholders / nominated directors* • *Monthly financial and operational updates* • *Regular meetings and calls* • *Annual report and financial statements, which gives details of the performance, strategy, viability and company business model, approved by the Board*	How the company engages • *Industry working groups including committees, panels and forums* • *Responding to consultations and requests for information* • *Ongoing dialogue on strategic planning and land disposals* • *Regular meetings and calls, including meetings with key MPs in our supply area* • *Discussions on our key worker status and priorities in response to Covid-19*
How the Board engages • *We explain how the Board engages with our shareholders and involves them in decision-making in our publication: "Consulting with our shareholders", approved by the Board in June 2020 to include the Ofwat 2019 principles, available on the governance pages of our website.* • *In 2021/22 the Board engaged directly with shareholders in setting and approving budgets for 2022/23* • *The Board engaged with shareholders on the £4.0m equity injection into the company in March 2021, including objectives from the funding and the source of the finance* • *The Board conducted an effectiveness review, including responses from shareholder appointed non-executive directors, in the year.*	How the Board engages *Information reported to the Board:* • *The Board receives monthly updates on regulatory and relevant political developments, and regulatory consultations and requests for additional information* • *Risk assessments reviewed to ensure sites are all Covid-19 compliant, in line with Government guidance* *Direct engagement mechanisms:* • *Board approved updated terms of reference to include Ofwat's 2019 Board leadership, transparency and governance principles* • *The Board received updates on proposals to submit to Ofwat for Innovation Competition funding* • *Throughout 2021/22 the CEO had meetings with Ofwat representatives and Water UK on the impact of Covid-19 on the industry and performance commitments* • *The CEO had meetings with the EA, Ofwat and the DWI on operational events and the impact on ODIs and abstraction licences* • *Delivery Steering Group and monthly performance reviews to drive the achievement of performance commitments in AMP7* • *Non-executive and shareholder directors attended regular events with Ofwat, including prior to their appointment.*

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2022 (continued)

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Environmental bodies	**Providers of finance and credit rating agencies**
Why engagement is important *We need to manage the impact of taking water from sensitive habitats and to maintain flows in local rivers whilst also ensuring a continuous supply of high-quality water for customers in line with our purpose* *Successful engagement will mean we protect water sources and the quality of water supplied and minimise our impact on the environment*	Why engagement is important *It is imperative that we maintain effective relationships and ongoing dialogues with our banks and credit rating agencies to ensure access to financial services as well as capital markets. Successful engagement means we will be a responsible company that delivers reliable returns and is transparent in our reporting.*
How the company engages • *WRMP* • *Catchment management* • *River restoration* • *Company environmental policy to ensure we meet our purpose to provide high quality drinking water for our customers and take care of the environment*	How the company engages • *Annual review meetings with credit rating agencies* • *Regular meetings and calls with banks* • *Financial reports* • *Engaged with banking groups and credit rating agencies on the impact of Covid-19 and the issue of swaps and debt*
How the Board engages *Governance arrangements:* • *The Board is composed of individuals who have appropriate knowledge, skills, experience and background to take decisions informed by an awareness and understanding of environment related threats and opportunities. Our shareholder directors are focused on environmental issues, as part of our shareholders' wider environmental, social and governance (ESG) programmes and alignment to the UN's Sustainable Development Goals (SDGs)* • *The Safety, Health, Environment and Drinking Water Quality (SHEDWQ) Committee reviews and monitors, on behalf of the Board, environmental matters arising from our activities and operations, including monitoring performance against targets* • *Environmental considerations are embedded into our principal risks and the management of these risks, in particular the principal risk "We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water", which are monitored by the Board. A full review of risks was undertaken in the final quarter of 2021/22* • *The Board receives monthly information on our performance in relation to key environmental metrics, including water quality, leakage, sustainable abstraction reductions, average water use and water available for use, to enable it to monitor the success of strategies implemented* *Local environment:* • *The Board reviewed customer feedback when approving our company purpose and considered customers' views on the environment, and in 2020/21 the Board approved stopping extraction from boreholes at the top of the Chess Valley, highlighting the company's commitment to restoring chalk streams* • *The Board undertook deep dive exercises on ODI performance plans, targets, and current performance* *Climate change:* • *The Board considers climate change in two principal ways:* *1) the potential impacts of climate change are addressed through long-term planning as part of the statutory WRMP (available on our website: affinitywater.co.uk/water-resources-plan, addressed in Technical Reports 1.2 and 1.3). A Board sub-committee on the WRMP oversaw this work and was advised by external technical experts; and* *2) in 2021/22, we continued to work alongside other water companies and Water UK to develop a route map to reduce carbon emissions to net zero by 2030, an industry wide target.*	How the Board engages *Information reported to the Board:* • *A treasury report is provided to the Board on a quarterly basis, which includes details of the company's covenants and gearing headroom, and financial results* *Direct engagement mechanisms:* • *The CFO, on behalf of the Board, and the treasurer met with lenders and credit rating agencies during the year* • *The Board approved the treasury policy and strategy to enter into power hedging arrangements* • *The Board approved the issuance of the company's first Green bond with proceeds to be used to finance expenditure outlined in our Green Finance Framework* *Refer to note A4 of the statutory financial statements for further information on our risk management processes and the Board's role in these.*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Supply chain
Why engagement is important *We rely on our supply chain for delivery of operations and capital projects, and partners provide investment and support delivery as well as acting as a source of innovation and new ways of working.* *Successful engagement will mean we are a good company to work with, to partner and do business with, ensuring that we and our partners maximise the greatest mutual value and we can continue to operate in a post Brexit working environment.*
How the company engages • *Integration of contractors into our teams* • *Sharing of reporting and management systems for collaborative and shared learning* • *Quarterly forums with all our Maintenance and Repair and Traffic Management suppliers, to discuss “lean” processes and improvements* • *Regular meetings and calls, including monthly performance meetings with our largest suppliers* • *Discussions with suppliers on how we perform key essential work in response to Covid-19*
How the Board engages *Board’s involvement in the agreement of supplier terms:* • *We have a standard set of purchase order terms and conditions and a Supply of Goods and Services Agreement published on our website: affinitywater.co.uk/policies, which is reviewed and amended (where necessary) by our Procurement and Legal teams who report to our executive members of the Board* • *We have a Contracts Committee, which approves the award of material contracts* • *A subset of the wider Board was involved in formulating a strategy for contracting our key Maintenance and Repair suppliers for AMP7, including determining key principles, contract scopes and tender evaluation criteria. In 2020/21 and 2021/22, the Board agreed changes to key suppliers* • *The Board considers the company’s policies around compliance with the Modern Slavery Act and GDPR as they relate to suppliers through the approval of the company’s Modern Slavery Statement and review of the appropriateness of mitigation detailed in the strategic risk register in relation to the principal risk: “Availability, confidentiality or integrity of information or data could become compromised”)* • *The Board receives information on a monthly basis on operational ODI performance and bi-annually on payment practice information to enable it to consider our performance and how it compares to industry peers* • *The SHEDWQ Committee also reviews and monitors, on behalf of the Board, safety and health matters arising from our activities and operations, including in relation to our supply chain)* • *The Board considers the risk of supply chain failure through its consideration of the strategic risk register* *Direct engagement mechanisms:* • *Executive directors attend meetings with key members of the supply chain based on a supplier strategy*

Priorities for the year

Following a review of direct engagement mechanisms, the Board identified the following priorities for the year and the remainder of AMP7:

- Achieving and outperforming our financial commitments
- Meeting our health, safety, regulatory and compliance obligations
- Developing a supportive culture, which enables everyone to perform to their best
- Striving to make a positive impact on the environment in all that we do.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2022 (continued)

Section 172(1) statement (continued)

Key decisions made in 2021/22

We set out below key decisions made in 2021/22 and the Board's consideration of section 172 factors in making these.

Approved the company's ongoing response to Covid-19	The Board received regular updates on the company's response to Covid-19, having weekly calls at the start of the pandemic to assess the implications and agree the company strategy in response to the change in working environment. The Board reviewed the emergency plan and agreed it was crucial to continue to meet the demands of the public whilst ensuring the utmost safety of employees. The Board considered updates from Public Health England, the NHS, World Health Organisation and the Foreign and Commonwealth Office. The Board reviewed updates on financial implications, regulations and risk assessments and reviewed plans for a phased return to work. The Board engaged with the following stakeholders in assessing its response to Covid-19: **Customers** • The CEO met with vulnerable customers to understand the impact of the financial hardship they are facing as a result of the Covid-19 pandemic, to allow us to provide relevant financial support **Employees** • The CEO met employees across the business to thank them for their work during the pandemic and understand the issues on the ground and the new ways of working • The Board reviewed results from engagement surveys, completed by all employees, to understand the impact of Covid-19 on the workforce and draft 'return to work' plans **Shareholders** • The Board shared with shareholders the impact that Covid-19 has had on the company financials, and consulted with them on best course of mitigating actions to put in place **Regulators** • The Board had discussions with regulators regarding key worker status, not using the furlough schemes, and discussed our operational priorities and the impact the pandemic has had on our ODI performance **Providers of finance** • The CFO, on behalf of the Board, engaged with banking groups and credit rating agencies on the impact of Covid-19 and the issue of interest rate and power hedging swaps to mitigate against our interest cover ratio covenant **Supply chain** • The Executive Team, on behalf of the Board, had discussions with suppliers on how we perform key essential work in response to Covid-19, to ensure we are aligned and continue to meet our customer outcomes during the pandemic

Section 172(1) statement (continued)

Key decisions made in 2021/22 (continued)

Approved the long-term Strategic Direction Statement	The Board was fully engaged with and received regular updates on the Strategic Direction Statement, which was published on our website. This sets out the company's long-term strategy and plans in place to achieve this. Our Strategic Direction Statement provides our vision for the next 25 years, the challenges that we will face and how we need to manage these to ensure that we can meet the needs of our customers today and in the future. The Board engaged with the following stakeholders in formulating our long-term strategy: **Communities and Customers** • We led extensive feedback sessions with customers and communities to understand all viewpoints when formulating our strategy. Communities want us to collaborate and bring everyone together to address the challenges and share knowledge and resources to create a more resilient and sustainable future • Our customers understand water is crucial and it is our responsibility to shape a more sustainable future by changing the way in which they use water and increase understanding of why this is key. One of the things they told us is that affordability continues be a key concern for our customers, especially in the wake of the pandemic and we understand we must support customers through the journey of adaptation **Regulators** • We engaged with Ofwat and the DWI when formulating our Strategy, taking on board feedback received on the direction of the wider water industry **The environment and environmental regulators** • Demand pressures and environmental protection in the South East, including the climate change emergency we are facing formed the basis of our Strategic Direction Statement. We have considered abstraction targets, population growth, our natural geography and our asset health and consulted with the Environmental Agency, Defra and other environmental agencies in formulating our Statement **Providers of finance** • It is fundamental that we continue to maintain resilience in our finances in order to continue to deliver and invest in services. We engaged with Investors and other financial agencies to understand the need to balance between investing in our services, offering investors a fair return and maintaining affordable water bills
Approved the annual budget and ten-year base case cash flow forecast	The 2022/23 annual budget and ten-year base case cash flow forecast were approved by the Board following a comprehensive review of our strategic priorities and risks to our business in light of Ofwat's Final Determination. Our budget process took both a bottom-up approach, which engaged all cost centre managers in the business, and a top-down approach, which engaged our shareholders and considered Ofwat's Final Determination in light of shareholder objectives. The Board considers our plans challenging but that they will position the company well against our longer-term value creation vision whilst honouring our commitments to stakeholders.
Approved the 2022/23 workforce pay settlement	In 2021/22, the Board reviewed progress of pay negotiations with trade unions. The Board considered the importance of creating value for shareholders while balancing the need for investment in the workforce. Employees were consulted through their trade unions of which all employees are entitled to be a member of. The Board concluded that it was in the best interests of the company to support the Chief Executive Officer's decision to approve the proposed pay increase in order to increase employee engagement, retention rates and productivity, leading to increased value creation.

Section 172(1) statement (continued)

Key decisions made in 2021/22 (continued)

Approved the AMP7 investment plan and continuous transformation program	We believe our Final Determination will be challenging to deliver, but we accepted the need to improve performance for our customers and for the environment. Over the past two years, we have been determined to continue to transform our business to achieve this. The Board reviewed and approved the AMP7 transformation program in June 2020, consisting of capital expenditure plans, delivery of operational efficiencies, delivery of enabling projects and meeting our performance commitments, all ensuring we are “getting fit for the future”. Continued focus has been maintained throughout 2021/22 on the transformation plans embedded into the capital expenditure programme, whilst entering into recovery plans regarding delayed programmes caused by the Covid-19 pandemic in 2020/21. The Board engaged with the following stakeholders in approving the plan: **Customers** • Investment plans and proposed initiatives have customers at the forefront of all decisions to deliver what matters most to them **Employees** • Delivery Steering Group and monthly performance reviews set up, consisting of members of the Board, Executive Management Team and Senior Leaders to ensure delivery of the plan and that objectives of Shareholders, Regulators, Customers and Employees are met • Employees can access a dedicated Business Excellence page on our internal website which includes details of the plans and transformation projects and encourages all employees to deliver more efficient outcomes **Shareholders** • Shareholders were made aware of all investment plans and proposed initiatives and consulted with when approving the final investment plan and transformation program **Regulators** • Stretch targets set by Ofwat as part of the PR19 process and the business is working to find ways to ensure we achieve these commitments

Section 172(1) statement (continued)

Key decisions made in 2021/22 (continued)

Approved our sustainability plans to protect the chalk streams within our supply area	The Board reviewed customer feedback when approving our company purpose and considered customers' views on the environment, and in 2020/21 the Board approved stopping extraction from boreholes at the top of the Chess Valley, highlighting the company's commitment to restoring chalk streams. The company has developed a strategy in 2021/22 for achieving our pledge to end unsustainable abstraction, assess the impact and benchmarked with the local community to revise the Upper River Chess and cut groundwater abstraction in our supply region. Across our supply area, we will be significantly reducing groundwater abstraction in the Ver, Mimram, Upper Lea and Misbourne catchments by 2024 to leave more water in the environment. The Board engaged with the following stakeholders in approving the plans: **Customers** • Feedback from customers was obtained when approving the company purpose and environmental plans **Communities** • Discussions were had with the River Chess Association on the use of the river within our communities, especially during the Covid-19 pandemic. Communities were brought together to help in the task of protecting our chalk streams **Regulators** • Investigation, trials, and collaborative efforts with local groups in the Chilterns, the Chilterns Conservation Board (CCB) and the Environment Agency were held, and we will continue to work with these partners to understand the longer term beneficial impacts **The environment** • The chalk streams that flow through the Chilterns are widely regarded as the most threatened of all chalk streams in the world and have suffered increasingly from chronic low flows and dry periods. Reducing abstraction will go a long way towards reversing the decline in flow of these streams

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2022 (continued)

Section 172(1) statement (continued)

Key decisions made in 2021/22 (continued)

Approved our Green Finance Framework and issuance of our first green bond	During the year we put in place a Green Finance Framework, which aligns our strategic and sustainability priorities with our funding and financial strategy. In October 2021, we issued our first green bond with a nominal amount of £130.0m and total proceeds of £147.8m, which will be used to fund projects which are fundamental to our Sustainability Strategy and will support our environmental objectives. The Board engaged with the following stakeholders in approving the framework and bond issuance: **Customers** • Investment plans and proposed initiatives have customers at the forefront of all decisions to deliver what matters most to them **Shareholders** • Shareholders were made aware of all investment plans and proposed initiatives and consulted with when approving the finalisation of the Green Finance Framework and bond issuance **Employees** • Our directors will lead and allocate adequate resources to protect water sources and quality of water supplied; meet environmental and other legal obligations; develop a climate adaptation plan; and promote awareness of environmental issues within the company and outside it • Everyone who works for us will familiarise themselves with our policies and procedures; comply with our policies and procedures in their work activities; work together to achieve our objectives, targets and to prevent pollution; report and address environmental incidents, risks and hazards, and highlight good practice; and share learning to prevent similar incidents occurring in the future **The environment** • We will manage our impact on the natural environment by minimising the amount of waste generated, and not recycled, from our activities; optimising our energy use and reducing our greenhouse gas and other emissions where possible; controlling the risks and impacts of pollution; using trained and competent people; working with our supply chain to address risks and minimise environmental impacts; investigating incidents and events to learn from them; and working with our communities, regulators and government agencies to manage our impact on the environment **Providers of finance** • Affinity Water has selected a number of key focus areas for Green investments which are fundamental to its Sustainability Strategy and will deliver tangible environmental and indirect positive impacts on society, in addition to contributing to the United Nations' Sustainable Development Goals (UN SDGs) • The company said the Green Finance Framework helped it to attract investors who are supportive of these goals, and who will act as valuable partners in supporting its journey and the company's contribution to a more sustainable society • The Framework covers a number of different initiatives including sustainable water and wastewater management; pollution prevention and control; terrestrial and aquatic biodiversity conservation; and energy efficiency

Approval of the strategic report

Approved by the Board and signed on its behalf:

Roxana Tataru
Director
4 October 2022

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2022

Introduction

The directors present their Annual Report and the audited consolidated Financial Statements of Daiwater Investment Limited ('the company') for the year ended 31 March 2022.

The company was incorporated on 24 April 2017 to acquire the Affinity Water group through the purchase of Affinity Water Acquisitions (Investments) Limited. This transaction completed on 19 May 2017.

The company is a limited liability company registered in England and Wales and it was the ultimate holding and controlling company of the Affinity Water group in the United Kingdom throughout the year. Details of the ownership of the company and the group structure are set out on the following pages and in note 27 of these financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The strategic report from pages 4 to 30 provides information relating to the group, its strategy and its results and financial position for the year ended 31 March 2022. Details of the risks and principal uncertainties facing the group are set out on pages 5 to 15.

Dividends and dividend policy

The company's dividend policy is to distribute all surplus cash (to the maximum extent permitted by applicable laws and any relevant requirement) subject to there being adequate provision for working capital, approved forecast expenditure and debt servicing (excluding any outstanding shareholder loans). All surplus cash is distributed first, by way of payment of interest on any outstanding shareholder loans and second, by way of interim or, as the case may be, final dividend on the shares in issue. The amount of the dividend is, therefore, subject to the dividend policy of Affinity Water Limited, the group's principal trading subsidiary, which is disclosed in its own Annual Report and Financial Statements for the year ended 31 March 2022 on its website: *affinitywater.co.uk/library*.

No dividends were paid in the year ended 31 March 2022 from the company. Dividends of £91,000 were paid to non-controlling interests from group subsidiaries.

Dividends of £17,000,000 were paid from the company during the year ended 31 March 2021 from the proceeds on disposal of Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), one of the group's former trading subsidiaries. An additional £106,000 was paid to non-controlling interests from group subsidiaries.

No final dividend is proposed (2021: £nil).

Significant events during the year

Details of the significant events relating to Affinity Water Limited, that occurred during the year are set out in the performance highlights, Chair's welcome, CEO's introduction and financial review section of its own Annual Report and Financial Statements for the year ended 31 March 2022 on its website: *affinitywater.co.uk/library*.

There were no significant events relating to other entities within the group.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2022 (continued)

Ownership

We consider the following entities to be our ultimate controllers, as they are in a position to exercise material influence over our policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP
- Sun Life Financial Inc.

These entities, have provided the group's principal trading subsidiary, Affinity Water Limited, with legally enforceable undertakings that they will:

- give Affinity Water Limited such information as may be necessary to enable it to comply with its obligations under the Water Industry Act 1991 and Instrument of Appointment;

- refrain from any action which would cause the Affinity Water Limited to breach any of its obligations under the Water Industry Act 1991 or the conditions of its Instrument of Appointment; and

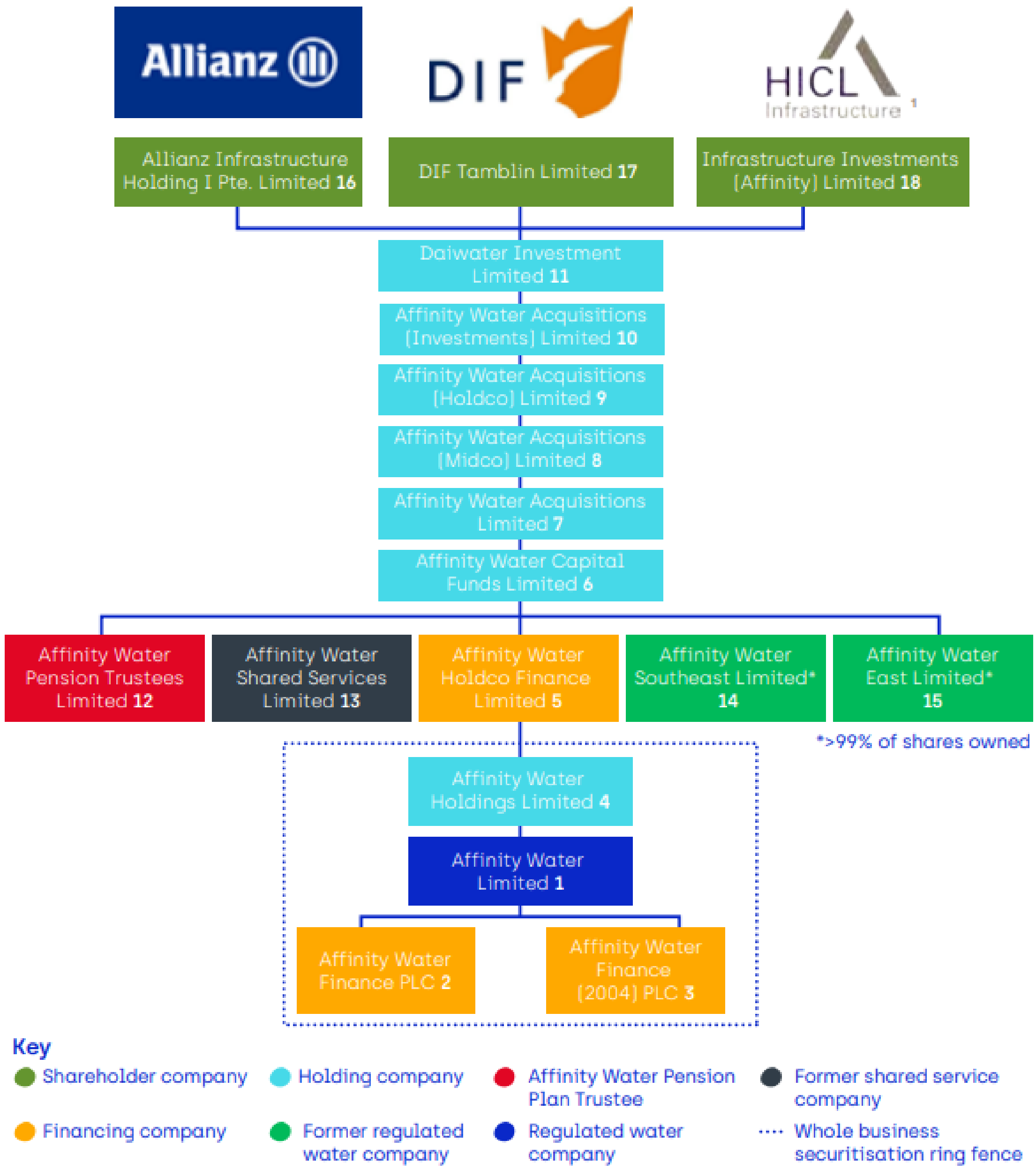
- use their best endeavours to ensure that the Board of Affinity Water Limited maintains three independent non-executive directors, who shall be persons of standing with relevant experience and who shall collectively have connections with and knowledge of the areas for which the group's principal trading subsidiary is a water undertaker and an understanding of the interests of the group's customers and how these can be respected and protected.

The Board is satisfied that these undertakings are being properly discharged and that Affinity Water Limited is able fully to meet its regulatory obligation to operate its appointed business as if it were substantially its sole business and were a separate listed company. Further, no issues have been identified at the group level which may materially impact on Affinity Water Limited during the year.

Directors' report
for the year ended 31 March 2022 (continued)

Ownership (continued)

The chart below shows the group structure, excluding dormant subsidiaries, as at 31 March 2022. Unless otherwise indicated, all companies are wholly owned by the parent company shown. The numbers listed alongside the companies within the group structure may be cross referenced to the table on pages 34 and 35.



1 HICL Infrastructure sold down 3.4% of its interest to a small group of co-investors, comprising UK local authority pension funds in June 2017

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2022 (continued)

Group structure

The following table provides further explanation of the group structure in keeping with the first principle set out in Ofwat's publication: *Board leadership, transparency and governance – holding company principles*: *transparency.*

Structure chart reference	Company	Description	Place of registration
①	Affinity Water Limited	A water undertaker holding an appointment under the Water Industry Act 1991, supplying water to a population of around 3.86 million people in the South East of England. It is the principal trading company of the Group.	England and Wales
②	Affinity Water Finance PLC	A financing subsidiary of Affinity Water Limited established in 2018 to issue bonds under a Euro Medium Term Note (EMTN) programme. It lends monies raised from its bonds to Affinity Water Limited.	England and Wales
③	Affinity Water Finance (2004) PLC	A financing subsidiary of Affinity Water Limited established in 2004 to issue a bond. It lends monies raised from its bond to Affinity Water Limited.	England and Wales
④	Affinity Water Holdings Limited	Affinity Water Limited's immediate holding company. Its equity is provided as security to bondholders in the event of default.	England and Wales
⑤	Affinity Water Holdco Finance Limited	A financing subsidiary of Affinity Water Capital Funds Limited established in 2017. It lends monies raised to Affinity Water Capital Funds Limited.	England and Wales
⑥	Affinity Water Capital Funds Limited	The original holding company for Veolia's regulated water businesses, which was acquired by the group in June 2012 through Affinity Water Acquisitions Limited, which provides management services to the company.	England and Wales
⑦	Affinity Water Acquisitions Limited[1]	The company which bid for and acquired Affinity Water Capital Funds Limited and its subsidiaries from Veolia Water UK Limited in 2012.	England and Wales
⑧	Affinity Water Acquisitions (Midco) Limited[1]	The holding company of Affinity Water Acquisitions Limited.	England and Wales
⑨	Affinity Water Acquisitions (Holdco) Limited[1]	The holding company of Affinity Water Acquisitions (Midco) Limited.	England and Wales
⑩	Affinity Water Acquisitions (Investments) Limited[1]	The holding company of Affinity Water Acquisitions (Holdco) Limited. It was the ultimate holding company of the group in the United Kingdom up until 19 May 2017, when it was acquired by Daiwater Investment Limited.	England and Wales

[1] The financial statements of these companies have not been prepared on the going concern basis of accounting, as the Daiwater Investment Limited group have commenced a project to simplify the Group structure. It is the intention of the directors of the respective companies that they will be wound up in the year ending 31 March 2023

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2022 (continued)

Group structure (continued)

Structure chart reference	Name	Description	Place of registration
⑪	Daiwater Investment Limited	The ultimate holding company of the group in the United Kingdom, paying dividends to the acquisition consortium subsidiaries.	England and Wales
⑫	Affinity Water Pension Trustees Limited	The trustee company of the Affinity Water Pension Plan.	England and Wales
⑬	Affinity Water Shared Services Limited[2]	A company which provided administrative and technical services solely to Affinity Water Limited until 31 March 2015. Its employees were transferred over to Affinity Water Limited on that date. Since the transfer, the company has ceased trading and it is the intention of the directors that the company will be wound up in the near future.	England and Wales
⑭	Affinity Water Southeast Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Dour community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
⑮	Affinity Water East Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Brett community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
⑯	Allianz Infrastructure Holding I Pte. Limited	A company which holds indirectly Allianz Capital Partners' investment in the Group.	Singapore
⑰	DIF Tamblin Limited	A company established in 2017 to hold indirectly DIF's investment in the Group.	England and Wales
⑱	Infrastructure Investments (Affinity) Limited	A company established in 2017 to hold indirectly HICL Infrastructure plc's investment in the Group, together with the co-investment by certain local authority pension funds.	England and Wales

[2] The financial statements of these companies have not been prepared on the going concern basis of accounting, as the Daiwater Investment Limited group have commenced a project to simplify the group structure. It is the intention of the directors of the respective companies that they will be wound up in the year ending 31 March 2023

Debt financing

Affinity Water Limited is the group's principal trading company and is financially and operationally 'ring-fenced' from the rest of the Affinity Water group by way of a WBS. The securitisation further enhances the ring-fencing provisions already in its licence. The sole business of its immediate holding company, Affinity Water Holdings Limited, is holding the shares of Affinity Water Limited.

The group has two financing subsidiaries which have issued bonds which are listed by the UK Listing Authority (UKLA) and the proceeds of which have been lent on to and are guaranteed by the group's principal trading company:

- Affinity Water Finance (2004) PLC has issued an external bond of £250.0m; and
- Affinity Water Finance PLC has issued external bonds totalling £894.2m.

The group believes that the ring-fencing structure provides significant corporate benefits, providing better access to long-term debt markets and an opportunity to reduce the cost of capital employed in the regulated business for the benefit of customers.

Bonds issued by both Affinity Water Finance (2004) PLC and Affinity Water Finance PLC are subject to the Listing Rules and Disclosure and Transparency Rules, being listed by the UKLA.

The bonds issued by the group at 31 March 2022 can be summarised as follows:

Debt	Bond £m	Coupon	Maturity Date
Class A fixed rate bond 2026*	250.0	5.875%	July 2026
Class A fixed rate bond 2036*	250.0	4.500%	March 2036
Class A RPI linked bond 2045*	190.0	1.548% (real)	June 2045
Class A CPI linked bond 2038	130.0	0.010% (real)	September 2038
Class A fixed rate bond 2042*	85.0	3.278%	August 2042
Class A fixed rate bond 2033*	60.0	2.699%	November 2033
Class A CPI linked bond 2042*	60.0	0.230% (real)	November 2042
Class A fixed rate bond 2022*	14.2	3.625%	September 2022
Total Class A	**1,039.2**		
Class B RPI linked bond 2033	95.0	3.249% (real)	June 2033
Class B RPI linked bond 2033*	10.0	1.024% (real)	June 2033
Total Class B	**105.0**		
Total	**1,144.2**		

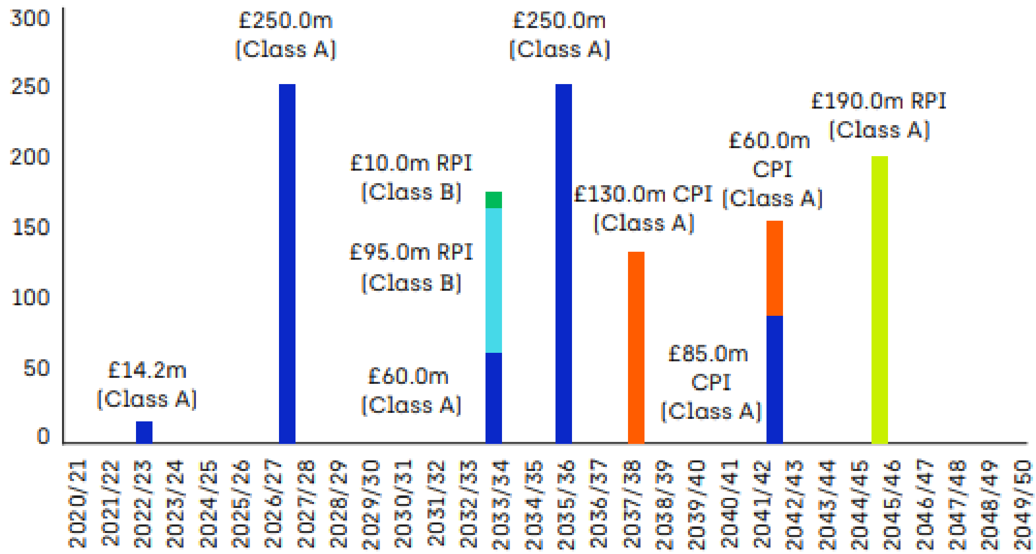
*Listed on the London Stock Exchange

The £14.2m Class A fixed rate bond matured in September 2022 and was fully repaid.

The group's next significant debt maturity is in July 2026 when its £250.0m fixed rate bond matures. The maturity profile of all the group's borrowings is set out in note A4, and in the graph on the following page.

Directors' report
for the year ended 31 March 2022 (continued)

Debt financing (continued)



Interest rate exposure is primarily managed by using a mixture of fixed rate, floating rate, and index-linked borrowings (refer to note A4). At the year-end, 52.3% of the group's gross borrowings were at fixed rates (2021: 59.4%), 33.7% (2021: 36.1%) at rates indexed to RPI and 14.0% (2021: 4.5%) at rates indexed to CPI.

Considering the index-linked inflation swaps, the proportion of borrowings at fixed rates decreased to 22.6% (2021: 26.3%), the proportion indexed to RPI increased to 47.4% (2021: 51.4%) and the proportion indexed to CPI increased to 30.0% (2021: 22.3%).

The credit ratings for the group's bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch, and affirmed in May 2022, April 2022 and October 2021 respectively, were as follows:

Bonds	Moody's	Standard & Poor's	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Corporate family rating for Affinity Water Limited	Baa1	Not applicable	Not applicable

Directors' report
for the year ended 31 March 2022 (continued)

Debt financing (continued)

The total value of the issued bonds can be reconciled to the group's net debt position as at 31 March 2022 as follows:

	2022 £000
Nominal value of Class A fixed interest bonds issued	659,204
Nominal value of Class A index linked bonds issued	380,000
Nominal value of Class B index linked bonds issued	105,000
Total nominal value of bonds issued	1,144,204
Accretion on Class A index linked bonds	65,895
Accretion on Class B index linked bonds	30,030
Accretion on financial derivative	39,172
Capitalised bond issue costs and net premium/discount related to Class A bonds	33,106
Capitalised bond issue costs relating to Class B bonds	(1,031)
Capitalised issue costs relating to financial derivative	(307)
Fair value adjustment on acquisition	349,630
Amortisation of fair value adjustment	(116,762)
Bank term loan	41,429
Debentures	34
Cash in hand	(220,583)
Net debt	**1,364,817**

Net debt as at 31 March 2022 was £1,364,817,000, an increase of £82,170,000 since last year (2021: £1,282,647,000) primarily due to accretion on the index-linked bonds.

Affinity Water Limited, the group's principal trading subsidiary has two revolving credit facilities, £60,000,000 (2021: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2021: £40,000,000) provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required by the subsidiary.

Affinity Water Limited also has available two standby facilities with one counterparty (2021: two counterparties) in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £32,000,000 (2021: £32,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £23,000,000 (2021: £23,000,000), which is intended for the purpose of funding operating and capital maintenance expenditure.

On 2 September 2022, Affinity Water Holdco Finance Limited refinanced its £42,000,000 bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years. The facility also contains an uncommitted accordion feature to increase the loan size to £75,000,000. The carrying amount of the loan at 31 March 2022 was £41,429,000 (2021: £40,973,000).

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2022 (continued)

Board of directors

The directors of Daiwater Investment Limited who were in office during the year and up to the date of signing the financial statements are disclosed on page 1.

Certain Board members are also directors of other group companies. The numbers listed alongside their name in the table below may be cross referenced to the relevant company shown on the structure chart on page 33.

The table below sets out attendance at Board meetings for the year ended 31 March 2022.

	Number of meetings
Neeti Anand ④⑤⑥⑦⑧⑨⑩⑪	0/1
Marissa Dardi ④⑤⑥⑪	0/0
Tom Goossens ④⑤⑥⑦⑧⑨⑩⑪	0/0
Jaroslava Korpanec ①②③④⑤⑥⑦⑧⑨⑩⑪	0/0
Michael Osbourne ①②③④⑤⑥⑪	0/0
Anthony Roper ①②③④⑤⑥⑦⑧⑨⑩⑪	1/1
Angela Roshier ①②③④⑤⑥⑦⑧⑨⑩⑪	0/1
Scott Springett ④⑤⑥⑦⑧⑨⑩⑪	0/0
Roxana Tataru ①②③④⑤⑥⑦⑧⑨⑩⑪	1/1

There was one Board meeting during the year, which was attended by two of the four directors who had been appointed at that time.

Directors' qualifying third party indemnity provisions

The company has not granted any indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006.

Corporate governance

The group and company benefits from the corporate governance arrangements established by Affinity Water Limited, full details of which can be found in its own Annual Report and Financial Statements for the year ended 31 March 2022, together with more detailed corporate reporting disclosures.

Affinity Water Limited remains committed to the highest standards of governance and supports the principles of good corporate governance set out in the 2018 UK Corporate Governance Code ('the Code'), the UK Stewardship Code and Ofwat's 2019 board leadership, transparency and governance principles. It is ultimately owned by private investors and therefore Affinity Water Limited applies the principles of the Code in this context, having regard to: the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) and the work of the Private Equity Reporting Group to monitor conformity with the Guidelines; the OECD Principles of Corporate Governance (2004); and Ofwat's revised board leadership, transparency and governance principles.

The trading subsidiary complied with the principles of the Code during 2021/22, except in terms of aligning executive directors' pension contributions with those of its workforce. This is explained in detail in its own Annual Report and Financial Statements on its website: *affinitywater.co.uk/library*. The reason for the departure is explained within the relevant section of Affinity Water Limited's corporate governance report for the year ended 31 March 2022. The Board of Affinity Water Limited considers its governance arrangements appropriate for a company owned by private investors.

The Board has overall responsibility for the group's and company's systems of internal control and for reviewing the effectiveness of these systems. It is responsible for ensuring the group and company meets its obligations to its shareholders and meets from time to time to facilitate this.

There are certain matters that the Board of Affinity Water Limited has reserved for shareholder approval. These matters are published on Affinity Water Limited's website: *affinitywater.co.ukl/governance-assurance*

Financial and business reporting

Having taken into account all matters considered by the Board and brought to its attention during the year, the directors are satisfied that the Annual Report and Financial Statements taken as a whole are fair, balanced and understandable.

The Board believes that the disclosures set out on pages 4 to 30 of the Annual Report and Financial Statements provide the information necessary for shareholders to assess the group's performance, business model, financial risk management and strategy.

Future developments

It is anticipated the company will continue to invest and manage its long-term interests in the water industry in the United Kingdom for the foreseeable future.

Likely future developments in the business resulting from expected changes in the regulatory and competitive environments that Affinity Water Limited operates in are discussed in the strategic report in its own Annual Reports and Financial Statements for the year ended 31 March 2022 on its website: *affinitywater.co.uk/library*.

Research and development activities

The development and application of new techniques and technology is an important part of the group's principal trading subsidiary's activities. Affinity Water Limited is a member of UK Water Industry Research (UKWIR), and participates widely in, and benefits from its research programme. The UKWIR programme relating to Affinity Water Limited is currently divided into the following topics: drinking water quality and health; toxicology; water resources; climate change; water mains and services; leakage and metering and regulatory issues. Affinity Water Limited is also a member of other water industry research and innovation groups: Technology Approval Group, the Water Treatment Technical Working Group, the Sensor for Water Interest Group, the Water Regulations Advisory Scheme and Cranfield Water Network. In addition, Affinity Water Limited carried out more specific research during the year in the fields of process performance and energy optimisation, novel technologies for plumbosolvency control, monitoring of biological risks in the network and risks to water quality when changing sources of supply.

Political contributions

No political contributions were made during the year (2021: £nil), in accordance with the group's policy of not making political contributions.

Financial instruments disclosures

Details of financial instruments risk management are included within risk number 14 on page 14 of the strategic report and in note A4 of the financial statements.

Information required for Affinity Water Limited under the Listing Rules

During the year, no interest was capitalised by Affinity Water Limited.

The remuneration report in Affinity Water Limited's Annual Report and Financial Statements for the year ended 31 March 2022 provides disclosures in relation to relevant requirements of the Listing Rules.

Directors’ report
for the year ended 31 March 2022 (continued)

Employee matters

The trading subsidiary maintains a network of trained mental health first aiders within the business and continues to publicise its Employee Assistance Programme.

The subsidiary aims to ensure that each employee or applicant for employment receives the same treatment irrespective of race, gender, disability, sexual orientation, religious belief, creed, marital or parental status. This extends through all company policies including recruitment where the candidate’s particular aptitudes and abilities are consistent with the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Employees who become disabled whilst employed by the group are actively supported to maintain and/or find appropriate employment within the business.

The subsidiary provides a discretionary company-wide performance bonus scheme for all employees. The discretionary company-wide bonus scheme comprises operational and customer performance measures and a financial performance measure.

Engagement with employees

The trading subsidiary consults and informs its employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings, email and the intranet. It discusses ways to enhance and improve its communications and consultation channels directly with its employees as well as with the Trade Unions to which a number of its employees belong.

Employees are kept informed of changes in the business, and general, financial and economic factors influencing the company together with performance targets. This is achieved through regular briefings or presentations and electronic mailings.

See page 19 for details in our section 172(1) statement on how directors have engaged with employees and taken their interest in accounts.

Engagement with other stakeholders

See pages 19 to 30 for details in our section 172(1) statement on how directors have engaged with suppliers, customers and other stakeholders.

Financial instruments disclosures

Details are included within risk number 14 on page 14 of the strategic report and in note A4 of the financial statements.

Energy and carbon reporting

Scope 1

The annual quantity of emissions in tonnes of CO_2 equivalent resulting from activities for which the group is responsible (scope 1) is 6,283 tCO_2e (2021: 5,003 tCO_2e), shown in the table on the next page. Sources of fuel emissions from burning of fossil fuels is the use of Natural Gas used for the heating and cooling of our buildings, and Gas Oil and other fuels used primarily by generators at our water treatment works. Fugitive emissions include ozone used in the disinfection process and waste sludge recycled to land or landfill and refrigerant gases. Fleet fuel emissions result from the combustion of purchased fuel for fleet liveried vehicles.

Scope 2

The annual quantity of emissions in tonnes of CO_2 equivalent resulting from activities for which the group is responsible (scope 2) is zero tCO_2e (2021: 52,200 tCO_2e), shown in the table on the next page. Purchased total grid electricity from 1 October 2021 is from 100% REGO backed renewable energy (i.e., market based) which we primarily use for the pumping and treatment of water and a small amount for office use.

Scope 3

We are committed to reducing carbon emissions both in our operations and in the delivery of our capital programmes. For 2021/22 we are reporting on embedded carbon as part of the shadow reporting requested by OFWAT in preparation for mandatory reporting in 2022/23.

We have calculated the total quantity of GHG emissions, in tCO_2e (embedded carbon), for below ground asset installations and solar PV where projects have been completed in 2021/22.

To generate a more comprehensive overview of our carbon footprint we have extended our reporting of Scope 3 emissions to include chemical use and waste. Our operational emissions inventory already includes Scope 3 emissions for business travel, outsourced activities and purchased electricity transmission and distribution. For ease of reference these activities are included in the above table as additional Scope 3 GHG emissions for the 2021/22 year and are presented along with carbon figures for capital works.

Where it has not been possible to report on embedded carbon for other construction and maintenance activities, we have undertaken a review to ensure we understand the scope of this work and identify necessary steps to support reporting in future years.

Total energy consumption

Our total energy consumption including electricity, natural gas, gas oil, self-generated (diesel and solar) and fleet vehicles was 237,298 MWh (2021: 244,565 MWh).

Methodology used

For Scope 1, Scope 2 and selected Scope 3 Greenhouse Gas (GHG) emissions, we follow the most common approach to calculate GHG emissions from emission sources, which is to take activity data (e.g., units of electricity consumed, or distance travelled) and covert the activity data into tCO_2e. We have reported the common intensity metric for the Water Industry, which is Carbon tCO_2e per Ml, which is our tCO_2e divided by water into supply (Ml).

Daiwater Investment Limited

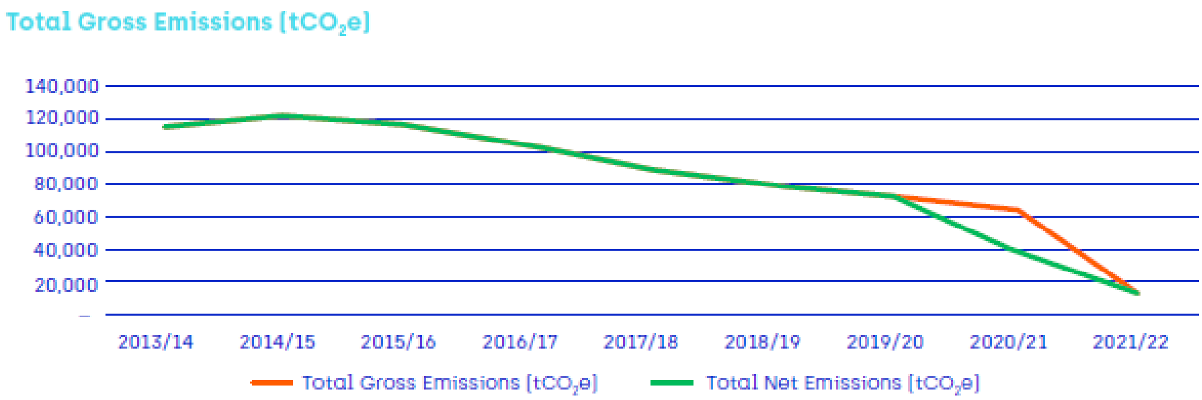
Directors' report
for the year ended 31 March 2022 (continued)

Greenhouse gas (GHG) emissions statement[1]

GHG emission source	2021/22		2020/21	
	Gross[2] (tCO_2e)	**Intensity ($kgCO_2e/Ml$)**	Gross (tCO_2e)	Intensity ($kgCO_2e/Ml$)
Scope 1	**6,283**	**18.3**	5,003	14.3
Fuel combustion	**1,870**	**5.5**	683	1.9
Process and fugitive emissions	**2,417**	**7.0**	2,420	6.9
Vehicle fleet	**1,996**	**5.8**	1,900	5.5
Scope 2	**-**	**-**	52,200	149.1
Purchased electricity	**-**	**-**	52,200	149.1
Statutory total (scope 1 & 2)[3]	**6,283**	**18.3**	57,203	163.4
Scope 3	**6,826**	**19.9**	7,198	20.5
Business travel in other vehicles	**109**	**0.3**	81	0.2
Outsourced activities	**2,581**	**7.5**	2,627	7.5
Electricity- transmission and distribution	**4,136**	**12.1**	4,490	12.8
Total gross emissions	**13,109**	**38.2**	64,401	183.9
Net emissions Green tariff electricity purchased	**N/A**	**N/A**	(25,200)	N/A
Total annual net emissions	**13,109**	**38.2**	39,201	112.0
Additional Scope 3 emissions	**279,711[4]**	**780.6**	-	-
Chemical stock used	**277,278**	**780.6**	-	-
Waste from treatment works	**2,433**	**-**	-	-
Embedded emissions				
Below ground asset works	**3,525**	**-**	-	-
Solar PV	**825[5]**	**-**	-	-

[1] We report our GHG emissions following the 2013 UK Government Environmental Reporting Guidance and using the 2018 UK Government Conversion Factors for Company Reporting. We have included emissions within the direct management responsibility of the company. This is consistent with our financial reporting boundary with the exception of scope 3 emissions, which are off-balance sheet emissions. Significant scope 3 emissions have been quantified for outsourced data support and emissions from the distribution and transmission of grid electricity. The data has been externally verified as part of our regulatory reporting requirements. All emissions reported relate to emissions in the United Kingdom and offshore area.
[2] We measure our gross GHG emissions in tonnes of carbon dioxide equivalent (tCO_2e).
[3] Statutory carbon reporting disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.
[4] Taken from chemical stock data
[5] Average of calculated embedded carbon in solar PV panels based on range of 750-900 tCO_2e/kWp

Greenhouse gas (GHG) emissions statement (continued)



The group supplies water to 3,860,000 consumers in our supply area (2021: 3,830,000). The Covid-19 pandemic developed rapidly in 2020 resulting in an increased demand for water we supply due to the impact of the virus and the hot summer of 2020. The way the group operates also had to change with the majority of office-based staff working from home, and just a small number of employees at the group's office locations. The group's front-line delivery teams have continued to work at our operational sites and in the community.

We are currently piloting ways to reduce whole life emissions (both operational and embodied) of several large capital projects. There is significant evidence that to evaluate a project through a carbon lens finds efficiencies in both carbon and costs which we aim to achieve through the use of the PAS2080 standard. We are also finding opportunities for wider benefits such as environmental net gain through our carbon reduction projects.

The group's plans include moving to a greener vehicle fleet, to develop significant renewable energy and to be part of the water industry's commitment to plant 11 million trees. In addition to this we are working closely with our supply chain partners to reduce carbon emissions (scope 3) from our daily activities and planned investment, both from the materials and energy we use.

This year has seen a decrease of 79.64%, of our gross greenhouse gas emissions compared to last year. Scope 1 Direct Emissions have increased from 5,003 tCO_2e in the prior year to 6,283 tCO_2e in 2021/22.

There has been an increase of 22.58% in natural gas usage from last year. This is due to higher proportion of estimated reads and slight increase of actual consumption, as we see more people working from offices as Covid-19 recedes.

There has been an increase in gas oil consumption against prior year of 66.57%, due to faulty generators being repaired and increased usage during winter peak load times.

Electricity consumption and emissions from outsourced activities, administration services and courier mileage have been included and in line with the Ofwat net zero road map, it is envisaged this will continue to expand.

Directors' report
for the year ended 31 March 2022 (continued)

Greenhouse gas (GHG) emissions statement (continued)

There has also been increases in the conversion factors cross most lines due to changes in government factors which are in the BEIS 21 methodology paper which details the revisions due to new/improved data whilst using existing calculation methodologies, and in the UK Water Industry Research Carbon Accounting Workbook (UK WIR CAWv16)

The water distributed input has decreased by 1.92%, which is used in the intensity measure (kgCO_2e/Ml). We used the UKWIR CAWv16 to calculate emissions.

There has been a 6.36% increase in petrol and diesel consumption relating to transport owned by the company, which contributes to our total emissions.

This compares to an increase in emissions from transport by public transport and private vehicles, this is 0.83% of our total net emissions.

We have also included in our scope 3 emissions:

- water treatment waste recycled to land;
- water treatment waste sent to landfill; and
- other wastes including scrap metals, plastics, cardboard and glass.

During 2021/22 we replaced a number of our borehole, booster and high lift pumps. We have also been optimising one of our main water treatment works to use the most efficient sources where possible. At another of our main water treatment works we have completed ozone upgrades which has reduced the ozone demand thereby reducing the power consumption of the generators. We have also installed new pumps and refurbished existing pumps across multiple sites to improve efficiency.

We have employed microthermal pump monitoring at three of our pump sets to identify the real time pump efficiency and to ensure that we are running in the most energy efficient way. Energy savings of 2-4% have been achieved and we are looking to continue the roll out of these to other sites.

We have also looked for other ways to improve site efficiency such as the removal of UV strainers which cause system pressure losses, this is being rolled out across 6 sites across the business with a view to increasing this number further.

Additionally, by working with Datumpin, and other suppliers, we have been able to make better use of the data that we have on our sites, to identify the impact of small changes on the operation of the site.

The energy savings of this work are less easy to quantify but it has led to reduced chemical consumption during Ion Exchange regeneration and a lower waste volume needing to be taken away.

We have also invested in our energy data by developing two new software tools to analyse energy performance at site, community and company level as well as detailed pump level. These tools have helped create a programme of works set to deliver £500k of energy benefit in financial year 2022/23.

Also, for the first time, we have invested in Energy Management and net zero training for Operational and Asset teams to develop a foundation level of knowledge and help embed a culture of energy and carbon efficiency.

Daiwater Investment Limited

Directors’ report
for the year ended 31 March 2022 (continued)

Going concern

Group

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements as the group has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This is based on assessment of the principal risks of the group and consideration of the group’s budgeted cash flows, short and long-term forecasts and ability to generate future revenues, related assumptions, available debt facilities and the principal trading subsidiary’s viability statement in its own Annual Report and Financial Statements.

Whilst the current economic environment as a result of the impact of Covid-19, supply chain cost pressures and the energy price crisis, is clearly challenging, the group has in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the group is not forecasting any covenant breaches over the going concern period. Details of the group’s available liquidity, including undrawn committed borrowing facilities, are included in the liquidity risk section of note A4. There have been no events after the reporting period significantly affecting liquidity headroom.

To assess the severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events including the impact of a severe cold weather event over the winter period and an increase in bad debt representing approximately 6% of debt not currently subject to loss allowance provision.

The base case has taken into consideration the impact of Covid-19, supply chain cost pressures and the energy price crisis on the group and reprofiled capital expenditure from projects delayed during the first year of AMP7 into later years of AMP7. Due to the nature of the group’s regulated business, the directors consider it appropriate to place reliance on projected financials.

Company

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the company financial statements as the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for at least the next twelve months and the foreseeable future beyond that.

Events after the reporting period

On 2 September 2022, Affinity Water Holdco Finance Limited refinanced its £42,000,000 bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years. The facility also contains an uncommitted accordion feature to increase the loan size to £75,000,000.

On 7 September 2022, it was announced that Keith Haslett would be appointed as Chief Executive Officer of Affinity Water Limited, taking over from Stuart Ledger who had stepped up as interim Chief Executive Officer. Stuart Ledger would also not return to his previous position of Chief Financial Officer, with the recruitment for that position in progress.

On 23 September 2022, it was announced that the corporation tax rate change from 19% to 25% with effect from 1 April 2023 was to be cancelled. Please refer to note 5 for more details.

On 30 September 2022, the group repaid its £14,204,000 Class A fixed rate bond.

Directors’ report
for the year ended 31 March 2022 (continued)

Statement of directors’ responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group’s and company’s transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors’ confirmations

Each of the directors, whose names and functions are listed in the directors' report confirm that, to the best of their knowledge:

- the group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position of the group and company, and of the loss of the group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors’ report is approved:

- so far as the director is aware, there is no relevant audit information of which the group’s and company’s auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group’s and company’s auditors are aware of that information.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2022 (continued)

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed by the Board.

By order of the Board

Roxana Tataru
Director
4 October 2022

Registered Office:

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditors' report to the members of Daiwater Investment Limited

Report on the audit of the financial statements

Opinion

In our opinion, Daiwater Investment Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2022 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 March 2022; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated and Company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 2.3, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

There have been a number of changes to our key audit matters for the year ended 31 March 2022, as set out in further detail below. We have also specifically set out our consideration of the impact of climate change on the audit.

In planning our audit, we have considered the impact that the group has on the environment through its operations and the impact the environment, including the current and potential future impact of climate change, has on the group's business and its financial statements. We did not identify any additional risks of material misstatement in this respect.

Independent auditors’ report to the members of Daiwater Investment Limited

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Context (continued)

Whilst it is acknowledged that the physical and transition risks posed by climate change have the potential to impact the group over the medium to long-term, in particular given the commitment to achieve net zero carbon from operations by 2030, management has assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2022.

However, we have made additional considerations throughout the performance of our audit to address areas which are commonly seen to be impacted by the risks associated with climate change, including the assumptions made as part of the assessment of the group to continue as a going concern, the assessment performed to determine whether any impairment is required to the investments held by the company and the appropriateness of the useful economic lives of material non-current assets. We have not identified any material exceptions through the procedures performed.

Overview

Audit scope

- The group has one finance function, with the audit being carried out by one team.
- The only significant component requiring a full scope audit within the group is Affinity Water Limited, with testing also performed over the borrowings and finance costs financial statement line items within the Affinity Water Finance PLC and Affinity Water Finance (2004) PLC to obtain sufficient coverage for the audit of the consolidated financial statements.

Key audit matters

- Accuracy of the measured income accrual (group)
- Adequacy of loss allowance for trade receivables (group)
- Assessment of cost capitalisation (group)
- Impairment of goodwill (group)

Materiality

- Overall group materiality: £3.8 million (2021: £3.9 million) based on 3.5% of the earnings before interest, tax, depreciation and amortisation ('EBITDA') (2021: 3.5% of the three year average EBITDA).
- Overall company materiality: £7.6 million (2021: £7.5 million) based on 3% of total assets.
- Performance materiality: £2.8 million (2021: £2.9 million) (group) and £5.7 million (2021: £5.7 million) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors’ report to the members of Daiwater Investment Limited

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
This is not a complete list of all risks identified by our audit.

'Assessment of cost capitalisation' is a new key audit matter this year. 'Impact of the COVID-19 pandemic', which was a key audit matter last year, is no longer included because the impact of COVID-19 was not considered to be an area of most significance to our audit, with the level of audit effort spent considering and responding to this risk on the financial reporting judgements or estimates, and the execution of the audit, having reduced compared to the prior year. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Accuracy of the measured income accrual (group) Refer to page 70 (accounting policies) and page 79 (note 1.2). A measured income accrual of £40.8 million (31 March 2021: £36.7 million) has been recognised relating to revenue from the provision of water services to metered household customers that had not been billed at the year end date. The determination of the measured income accrual impacts directly on both reported revenue and operating profit. The measured income accrual accounts for the timing difference between the last meter reading and the estimated consumption of water from that point to the year end and is calculated based on the average consumption over the past two years by small geographical groupings of customers. Given the range of factors underlying this estimate, there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is a manual calculation prepared using data from the Hi-Affinity billing system. We understood the methodology and ensured that it had been applied consistently with previous years. We also tested the mechanics of the spreadsheet used to calculate the measured income accrual. In respect of the integrity of the data within Hi-Affinity, we tested the design and operating effectiveness of key controls within the revenue and receivables cycle, including the reconciliation of reports produced from the Hi-Affinity billing system and the revenue journals posted to the general ledger, and the quarterly review of tariff changes made in the Hi-Affinity billing system. We also validated the accuracy of the data within Hi-Affinity by agreeing a sample of meter readings to the system and tracing actual consumption to the bills raised. To assess the overall reasonableness of the accrual, we performed an independent roll forward of the accrual recognised at 31 March 2021 to calculate an expected accrual at 31 March 2022, reflecting the underlying changes in the number of metered customers, pricing tariffs, levels of water consumption and the timing of meter readings. In order to assess the ability of management to prepare appropriate estimates in respect of the measured income accrual, we evaluated the historical accuracy of the estimation process by comparing the bills raised through the year to the amount accrued at 31 March 2021. We also compared the billing subsequent to 31 March 2022 and extrapolated the difference identified against the remainder of the accrual. Based on the procedures performed, we did not identify any material misstatements. We also assessed the disclosures in respect of the measured income accrual and consider these to be appropriate.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Adequacy of loss allowance for trade receivables (group) Refer to page 70 (accounting policies), page 95 (note 12) and page 123 (note A4). The total loss allowance of £43.4 million (31 March 2021: £42.3 million) principally relates to the loss allowance for trade receivables held within Affinity Water Limited of £33.0 million (31 March 2021: £34.0 million). This was calculated by applying a range of different percentages to trade receivables based on their respective ageing, with higher percentages applied to those categories of trade receivables which are considered to be of greater risk. Some customers have difficulty paying their bills or, in certain instances, choose not to pay them. As a result, given there are limited steps that a water company can take to recover debt from household customers, there is an ongoing risk of aged trade receivables not being collected, with this risk being heightened by the economic impact of the increased cost of living being experienced by customers. In order to account for the increased risk of credit loss as a result of the increased cost of living, consistent with the assessment performed in respect of the impact of COVID-19 in the prior year, management have made use of a third-party tool (Acorn consumer classification) to segment their existing customers into demographic segments. These demographic segments were then grouped into three risk buckets (low, medium and high) and allocated a percentage reflecting management's estimate of the likelihood of potential default. The weighted average across the three buckets was then used to calculate an incremental loss allowance for trade receivables to reflect the increased risk caused by the increased cost of living. Given the quantum of trade receivables, and the range of assumptions used in preparing the loss allowance for trade receivables, there is a risk that this estimate could be materially misstated.	We reviewed the methodology for calculating the underlying loss allowance for trade receivables and ensured it had been consistently applied with the prior year. We also understood and tested the mechanics of the spreadsheet used to calculate the initial loss allowance, the measurement basis (measured and unmeasured) and the methodology applied to calculate provision rates and agreed that they are consistent with the prior year. To ensure the appropriate classification of customers into sub-categories to apply the historical expected credit loss methodology, we selected a sample of trade receivables and tested that they have been allocated the appropriate provision rate based on ageing, customer type and measurement basis. In addition, we compared the actual rates used in the calculation of the loss allowance to prior year rates and reviewed the level of bad debt write offs which occurred during the year ended 31 March 2022 to assess the ability of management to prepare appropriate estimates. For the additional loss allowance recognised in relation to the increased cost of living, we assessed management's use of the Acorn consumer classification system and considered this to be a reasonable basis for the assessment performed. We also reviewed the demographic groupings assigned to the household customers and the subsequent risk grouping performed by management. We applied sensitivity analysis on this additional adjustment to consider the risk of this being materially understated or overstated, in light of both cash collection rates and the current economic outlook. Based on the procedures performed, we did not identify any material differences within the loss allowance for trade receivables. We also assessed the disclosures in respect of the loss allowance for trade receivables and consider these to be appropriate.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of cost capitalisation (group) Refer to page 70 (accounting policies) and page 88 (note 6). The additions to assets under construction during the year amounted to £136.0 million (year ended 31 March 2021: £128.1 million). These additions arose as a result of the fact that the group capitalises expenditure with respect to its infrastructure assets where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components. The allocation of costs between capital and non-capital spend can be judgemental and has a direct on profitability in any given year. The key judgement is management's assessment of what constitutes enhancement compared to maintenance expenditure and the allocation of overheads. Given the magnitude of capital spend, there is a risk that incorrect classification could give rise to a material misstatement.	We reviewed the process for allocating costs to capital projects and are satisfied that this allocation was made on an appropriate basis and is in line with the group's capitalisation policy. We selected a sample of items capitalised in the year and ensured these were consistent with the group's accounting policy and were appropriately capitalised in line with IAS 16. We challenged the assumptions and judgements made in allocating overheads to capital projects, through understanding the nature of activities performed. We also performed a review of a number of capital projects, comparing their current status to that of the approved management plan to understand the nature of the work being performed, whether the status of the project is in line with the initial approved budget and the anticipated timelines set out in the plan. We then used this information to challenge, where appropriate, the accounting treatment of these projects as at 31 March 2022. Overall, we consider the costs capitalised as at 31 March 2022 to be materially appropriate. We also assessed the disclosures in respect of the capitalisation of costs and consider these to be appropriate.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill (group) Refer to page 70 (accounting policies) and page 90 (note 8). The group has a material goodwill balance of £317.0 million (31 March 2021: £317.0 million) and management therefore conduct an annual impairment assessment to test whether the carrying value of goodwill is supported by projected future cash flows, in particular those of Affinity Water Limited, being the group's principal trading company.	We tested the principles and mathematical integrity of the group's discounted cash flow model used to assess goodwill for potential impairment. With the assistance of our valuation specialists, we have assessed the key assumptions used in this impairment calculation, including the discount rate and terminal value assumptions. We also tested the sensitivity of the impairment calculation to changes in the underlying assumptions, including consideration of the impact of applying our own independent assumptions. We challenged the cash flow projections used within the model by reference to current performance and analysis of management's historic forecasting accuracy. We also held discussions with both financial and non-financial management, corroborating the explanations provided to supporting documentation. We have also considered the appropriateness of the implied enterprise/regulatory capital value of the discounted cash flow model prepared with respect to the multiples of listed peers and recent transaction activity within the industry. We have assessed whether the disclosures made regarding the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflect the risks inherent in the valuation of goodwill. Through review of the impairment assessment performed by management, and the related disclosures made, we did not identify any material misstatements.

Report on the audit of the financial statements (continued)

Our audit approach (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group has one finance function, with the audit being carried out by one team.

In scoping our audit, with reference to our risk assessment, we identified and included all material financial statement line items within the scope of our audit procedures.

The only significant component requiring a full scope audit within the group is Affinity Water Limited, with this component contributing all revenue to the consolidated financial statements of Daiwater Investment Limited.

In order to obtain the necessary coverage over each financial statement line item contributing to the consolidated financial statements, testing has also been performed over certain balances and transactions in other entities within the group, including the borrowings and finance costs financial statement line items within Affinity Water Finance PLC and Affinity Water Finance (2004) PLC.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£3.8 million (2021: £3.9 million).	£7.6 million (2021: £7.5 million).
How we determined it	Based on 3.5% of the earnings before interest, tax, depreciation and amortisation ('EBITDA') (2021: 3.5% of the three year average EBITDA).	Based on 3% of total assets.
Rationale for benchmark applied	We have used EBITDA as this is the measure that management focus on internally within their reporting. The use of EBITDA is also consistent with the prior year, though a three year average was used in the prior year due to the impact of COVID-19 on profitability.	We believe that total assets is an appropriate metric as it is the primary measure used by the shareholders in assessing the performance of the company and is a generally accepted auditing benchmark for non-trading entities. This materiality relates to the audit for the statutory entity only.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Materiality (continued)

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £3.4 million to £3.7 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £2.8 million (2021: £2.9 million) for the group financial statements and £5.7 million (2021: £5.7 million) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £0.2 million (group audit) (2021: £0.2 million) and £0.4 million (company audit) (2021: £0.4 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- testing the mathematical accuracy of the base case going concern model prepared by management and agreeing this to Board approved budgets;
- assessing the inputs and underlying assumptions of the base case model;
- assessed the accuracy of the cash flow forecast prepared in the prior year so as to obtain assurance of the ability of management to prepare accurate forecasts;
- assessing the downside scenario which has been used to sensitise the base case model, including consideration of the underlying assumptions; and
- reviewing management's analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors’ report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors’ report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group’s and the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to industry regulation, including the requirements of The Water Services Regulation Authority ('Ofwat'), health and safety regulation (including the requirements of The Health and Safety at Work etc Act 1974) and environmental regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Listing Rules, UK tax legislation, pensions legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, in doing so increasing overall profitability, and management bias within accounting estimates, in particular the potential manipulation of the measured income accrual, loss allowance for trade receivables, the extent of costs capitalised or impairment assessment of goodwill. Audit procedures performed by the engagement team included:

- discussions with management, internal audit and the group's legal team, including inquiring of known or suspected instances of non-compliance with laws and regulation and fraud, and review of board minutes and internal audit reports;
- discussions with the General Counsel and Head of Ethics & Compliance to discuss both the litigation report and summary of whistleblowing matters arising;
- challenging assumptions made by management when preparing accounting estimates, in particular those that involve the assessment of future events, which are inherently uncertain – the key estimates determined in this respect are those relating to the measured income accrual, loss allowance for trade receivables and impairment assessment of goodwill; and
- identifying and testing journal entries posted, such as those with unusual account combinations or those posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.
- We have no exceptions to report arising from this responsibility.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board of Directors, we were appointed by the members on 13 November 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 March 2019 to 31 March 2022.

Simon Bailey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
7 October 2022

Daiwater Investment Limited

Consolidated income statement for the year ended 31 March 2022

(Registered Number 10738347)

	Note	2022 £000	2021 (restated) £000
Continuing operations			
Revenue	1	**319,747**	286,782
Cost of sales		**(266,764)**	(245,133)
Gross profit		**52,983**	41,649
Administrative expenses	2.1	**(38,453)**	(51,533)
Impairment losses on financial and contract assets	2.1	**(9,389)**	(13,388)
Other operating income	2.2	**18,972**	17,657
Operating profit/(loss)	2	**24,113**	(5,615)
Finance income	4	**38,948**	39,204
Finance costs	4	**(104,495)**	(49,636)
Fair value loss on inflation swaps	4	**(31,295)**	(32,452)
Net finance costs	4	**(96,842)**	(42,884)
Fair value gain on energy swaps		**27,988**	-
Loss before tax		**(44,741)**	(48,499)
Income tax (expense)/credit	5	**(54,764)**	8,405
Loss for the year from continuing operations		**(99,505)**	(40,094)
Gain from discontinued operation (attributable to equity holders of the group)	22	**-**	1,601
Loss for the year		**(99,505)**	(38,493)
(Loss)/profit is attributable to:			
Owners of the group		**(99,598)**	(38,585)
Non-controlling interests		**93**	92
		(99,505)	(38,493)

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 72 to 73.

The notes on pages 70 to 140 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of comprehensive income for the year ended 31 March 2022

(Registered Number 10738347)

	Note	2022	2021 (restated)
		£000	£000
Loss for the year		**(99,505)**	(38,493)
Other comprehensive income/(expense) for the year which will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit assets	10	**28,749**	(32,162)
Deferred tax (charge)/credit on items that will not be reclassified	5	**(7,187)**	6,111
Other comprehensive income/(loss) for the year, net of tax		**21,562**	(26,051)
Total comprehensive loss for the year		**(77,943)**	(64,544)
Total comprehensive (loss)/income is attributable to:			
Owners of the group		**(78,036)**	(64,636)
Non-controlling interests		**93**	92
		(77,943)	(64,544)
Total comprehensive (loss)/income attributable to owners of the group arises from:			
Continuing operations		**(77,943)**	(66,145)
Discontinued operations	22	**-**	1,601
		(77,943)	(64,544)

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 72 to 73.

The notes on pages 70 to 140 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of financial position as at 31 March 2022

(Registered Number 10738347)

	Note	2022 £000	2021 (restated) £000
Assets			
Non-current assets			
Property, plant and equipment	6	**1,707,172**	1,634,328
Right-of-use assets	7	**9,440**	10,507
Intangible assets	8	**646,964**	656,041
Investments	9	**51**	51
Retirement benefit surplus	10	**104,247**	74,532
Derivative financial instruments	11	**7,342**	-
Other receivables	12	**-**	184
		2,475,216	2,375,643
Current assets			
Inventories	13	**4,348**	4,080
Current tax assets		**308**	-
Trade and other receivables	12	**104,217**	95,842
Derivative financial instruments	11	**20,646**	-
Short-term investments	9	**70,179**	15,132
Cash and cash equivalents	14	**150,404**	99,579
		350,102	214,633
Total assets		**2,825,318**	2,590,276
Equity and liabilities			
Equity			
Share capital	15	**7,441**	7,441
Retained earnings		**442,392**	520,428
Non-controlling interests		**2,759**	2,757
Total equity		**452,592**	530,626
Liabilities			
Non-current liabilities			
Trade and other payables	16	**247,074**	150,806
Borrowings	17	**1,546,535**	1,388,275
Lease liabilities	18	**6,329**	6,891
Derivative financial instruments	11	**106,818**	45,925
Deferred tax liabilities	19	**271,500**	209,548
Provisions for other liabilities and charges	20	**3,107**	3,396
		2,181,363	1,804,841
Current liabilities			
Trade and other payables	16	**188,046**	250,746
Lease liabilities	18	**3,317**	3,801
Current tax liabilities		**-**	84
Provisions for other liabilities and charges	20	**-**	178
		191,363	254,809
Total liabilities		**2,372,726**	2,059,650
Total equity and liabilities		**2,825,318**	2,590,276

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments, and to reclassify trade receivables credit balances to payments received in advance. Further details are included on pages 72 to 73.

The notes on pages 70 to 140 are an integral part of these financial statements. The statutory financial statements on pages 62 to 140 were approved by the Board of Directors and were signed and authorised for issue on 4 October 2022 on its behalf by:

Roxana Tataru
Director

Daiwater Investment Limited

Company statement of financial position as at 31 March 2022

(Registered Number 10738347)

	Note	**2022**	2021
		£000	£000
Assets			
Non-current assets			
Investments	9	754,027	754,027
		754,027	754,027
Current assets			
Current tax asset		**-**	-
		-	-
Total assets		**754,027**	754,027
Equity and liabilities			
Equity			
Share capital		**7,441**	7,441
Retained earnings[1]		**740,466**	740,466
Total equity		**747,907**	747,907
Current liabilities			
Current tax liabilities		**6,120**	6,120
Total equity and liabilities		**754,027**	754,027

The notes on pages 70 to 140 are an integral part of these financial statements. The statutory financial statements on pages 62 to 140 were approved by the Board of Directors and were signed and authorised for issue on 4 October 2022 on its behalf by:

Roxana Tataru
Director

[1] Profit for the year of £nil (2021: £1,552,000) for the company consisting of interest and dividend income from its subsidiary undertakings, is included within retained earnings. All this income is from continuing operations. Dividends of £nil (2021: £17,000,000) were paid to the company's shareholders.

Daiwater Investment Limited

Consolidated statement of changes in equity for the year ended 31 March 2022

(Registered Number 10738347)

	Note	Attributable to owners of the group Share capital	(Accumulated losses)/ Retained earnings	Total	Non-controlling interests	Total
		£000	**£000**	**£000**	**£000**	**£000**
Balance as at 1 April 2020 as previously reported		744,133	(133,477)	610,656	2,771	613,427
Impact of restatement		-	(1,151)	(1,151)	-	(1,151)
Balance as at 1 April 2020 (restated)		744,133	(134,628)	609,505	2,771	612,276
(Loss)/profit for the year as previously reported		-	(46,737)	(46,737)	92	(46,645)
Impact of restatement		-	8,152	8,152	-	8,152
Other comprehensive loss		-	(26,051)	(26,051)	-	(26,051)
Total comprehensive (loss)/income (restated)		-	(64,636)	(64,636)	92	(64,544)
Capital reduction	15	(736,692)	736,692	-	-	-
Dividends	21	-	(17,000)	(17,000)	(106)	(17,106)
Total transactions with owners recognised directly in equity		(736,692)	719,692	(17,000)	(106)	(17,106)
Balance as at 31 March 2021 (restated)		7,441	520,428	527,869	2,757	530,626
Balance as at 1 April 2021		**7,441**	**520,428**	**527,869**	**2,757**	**530,626**
(Loss)/profit for the year		**-**	**(99,598)**	**(99,598)**	**93**	**(99,505)**
Other comprehensive income		**-**	**21,562**	**21,562**	**-**	**21,562**
Total comprehensive (loss)/income		**-**	**(78,036)**	**(78,036)**	**93**	**(77,943)**
Dividends	21	**-**	**-**	**-**	**(91)**	**(91)**
Total transactions with owners recognised directly in equity		**-**	**-**	**-**	**(91)**	**(91)**
Balance as at 31 March 2022		**7,441**	**442,392**	**449,833**	**2,759**	**452,592**

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 72 to 73.

The notes on pages 70 to 140 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of changes in equity for the year ended 31 March 2022

(Registered Number 10738347)

	Note	**Share capital £000**	**Retained earnings £000**	**Total £000**
Balance as at 1 April 2020		744,133	19,222	763,355
Profit for the year		-	1,552	1,552
Total comprehensive income for the year		-	1,552	1,552
Capital reduction	15	(736,692)	736,692	-
Dividends	21	-	(17,000)	(17,000)
Total transactions with owners recognised directly in equity		(736,692)	719,692	(17,000)
Balance as at 31 March 2021		7,441	740,466	747,907
Balance as at 1 April 2021		**7,441**	**740,466**	**747,907**
Result for the year		**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**-**
Dividends	21	**-**	**-**	**-**
Total transactions with owners recognised directly in equity		**-**	**-**	**-**
Balance as at 31 March 2022		**7,441**	**740,466**	**747,907**

The notes on pages 70 to 140 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of cash flows for the year ended 31 March 2022

(Registered Number 10738347)

	Note	**2022**	2021 (restated)
		£000	£000
Cash flows from operating activities			
Cash generated from operations	23.1	**102,508**	94,071
Interest paid		**(42,958)**	(42,871)
Tax (paid)/received		**(129)**	303
Net cash inflow from operating activities excluding capital contributions		**59,421**	51,503
Capital contributions		**25,771**	56,407
Net cash inflow from operating activities		**85,192**	107,910
Cash flows from investing activities			
Investment in short-term deposits		**(55,046)**	10,070
Purchases of property, plant and equipment		**(131,288)**	(125,779)
Proceeds from sale of property, plant and equipment		**435**	1,061
Proceeds on disposal of trading subsidiary		**-**	23,772
Purchases of intangible assets		**(8,608)**	(11,339)
Interest received		**16,886**	12,986
Net cash outflow from investing activities		**(177,621)**	(89,229)
Cash flows from financing activities			
Proceeds of loan from bank		**-**	15,973
Proceeds from loan from subsidiary undertaking		**146,994**	-
Principal elements of lease payments		**(3,649)**	(3,723)
Dividends paid to group's shareholders		**-**	(17,000)
Dividends paid to non-controlling interests in subsidiary undertakings		**(91)**	(106)
Net cash inflow/(outflow) from financing activities		**143,254**	(4,856)
Net increase in cash and cash equivalents		**50,825**	13,825
Cash and cash equivalents at the beginning of the year		**99,579**	85,754
Cash and cash equivalents at end of year	14	**150,404**	99,579

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included on pages 72 to 73.

The prior year has also reclassified £6,438,000 of interest receivable on inflation swaps to interest received. Previously this was netted off against interest paid. Further details are included on page 73.

The notes on pages 70 to 140 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of cash flows for the year ended 31 March 2022

(Registered Number 10738347)

	Note	**2022**	2021
		£000	£000
Cash flows from operating activities			
Cash generated from operations	23.1	-	1,213
Net cash inflow from operating activities		-	1,213
Cash flows from investing activities			
Interest received		-	419
Net cash inflow from investing activities		-	419
Cash flows from financing activities			
Loan principal received		-	15,368
Dividends paid to shareholders		-	(17,000)
Net cash outflow from financing activities		-	(1,632)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year	14	-	-

The notes on pages 70 to 140 are an integral part of these financial statements.

Daiwater Investment Limited

Notes to the financial statements - accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The group financial statements and company financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Going concern

Group

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as the group has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on assessment of the principal risks of the group and consideration of the group's budgeted cash flows, short and long-term forecasts and ability to generate future revenues, related assumptions, as well as available debt facilities and the principal trading subsidiary's viability statement in its own Annual Report and Financial Statements on its website: *affinitywater.co.uk/library*.

While the current economic environment as a result of the impact of Covid-19, supply chain cost pressures and the energy price crisis is clearly challenging, the group has in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the group is not forecasting any covenant breaches over the going concern period. Details of the company's available liquidity, including undrawn committed borrowing facilities, are included in the liquidity risk section of note A4. There have been no events after the reporting period significantly affecting liquidity headroom.

To assess the severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 6% of debt not currently subject to loss allowance provision.

The base case has taken into consideration the impact of Covid-19, supply chain cost pressures and the energy price crisis on the company, and reprofiled capital expenditure from projects delayed during the first year of AMP7 into later years of AMP7.

Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials.

Company

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the company financial statements as the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for at least the next twelve months and the foreseeable future beyond that.

Notes to the financial statements - accounting policies (continued)

Basis of consolidation

The group financial statements consolidate the financial statements of Daiwater Investment Limited and its subsidiaries from the date of the acquisition of Affinity Water Acquisitions (Investments) Limited, 19 May 2017. The subsidiary companies have been included in the group financial statements using the acquisition method of accounting.

The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

The company was the parent undertaking of the largest group to prepare consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, the company's income statement has not been included in the financial statements. The parent company's profit for the year has been included within the company's statement of financial position on page 65 by reference to a footnote.

Principles of consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred. They are deconsolidated from the date that control ceases.

Intercompany transactions and balances between group companies are eliminated on consolidation.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity respectively.

Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out in note A3. These policies have been consistently applied to all the years presented, unless otherwise stated.

Adoption of new and revised standards

There are no new standards and interpretations, which are not yet effective and have not been early adopted by the company, that will have a material effect on future years.

Daiwater Investment Limited

Notes to the financial statements - accounting policies (continued)

Prior year restatements as a result of error and change in presentation

1. Treatment of configuration and customisation costs in a cloud computing arrangement

In April 2021, the IFRS Interpretations Committee (IFRIC) agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. As such, the company has changed its accounting policy from capitalising all costs directly attributable to configuration and customisation in a cloud computing arrangement, to expensing such costs if the company does not have control of the developed software.

This change in accounting policy due to the IFRIC agenda decision has led to a prior year restatement of the income statement, increasing the loss by £1,464,000, and a reduction in total assets in the statement of financial position as at 31 March 2021 of £2,895,000 as shown in the table on the following page.

The change in accounting policy has also impacted the statement of changes in equity, resulting in a reduction in the opening retained earnings as at 1 April 2020 by £1,151,000, shown in the table on the following page, and a restatement of the loss for the year to 31 March 2021, increasing the loss by £1,464,000, as above.

The change in accounting policy has also impacted the statement of cash flows, decreasing net cash inflow from operating activities by £2,148,000 and decreasing net cash outflow from investing activities by the same amount.

2. Debit Value Adjustment on inflation swap derivative financial instruments

The fair value of derivative financial instrument liabilities now includes a Debit Value Adjustment (DVA), which is calculated by discounting the potential future cashflows at a rate that reflects the credit risk of the company, which is consistent with IFRS 13: 'Fair value measurement'.

The omission of the DVA in the prior year was an error and has led to a prior year restatement of the income statement, reducing the loss by £9,616,000, and decreasing the total liabilities in the statement of financial position as at 31 March 2021 by the same amount as detailed on the following page. There has not been a restatement made as at 31 March 2020 as the DVA would not have been material.

This omission has also impacted the statement of changes in equity, to reflect the reduced loss of £9,616,000, but has not had any impact on the statement of cash flows.

3. Trade receivables credit balances

The prior year balance sheet has been restated to reclassify £7,592,000 of credit balances on customers' accounts to 'Payments received in advance' in note 16. Previously this was incorrectly netted off against trade receivables in note 12.

As a result, net assets and net liabilities in the statement of financial position have both increased by £7,592,000, as shown on the following page.

The opening position as at 31 March 2020 has not been restated, although the reclassification would have been £7,134,000 at that date.

This restatement has not had any impact on the income statement, statement of changes in equity or statement of cash flows.

Daiwater Investment Limited

Notes to the financial statements - accounting policies (continued)

Prior year restatements as a result of error and change in presentation (continued)

4. Interest receivable on inflation swaps

There has been a reclassification in the statement of cash flows of £6,438,000 net interest received on inflation swaps to interest received. Previously, this was incorrectly netted off against interest paid.

As a result, net cash inflow from operating activities has decreased by £6,438,000, and net cash outflow from investing activities has decreased by the same amount.

This reclassification has not had any impact on the income statement, statement of financial position or statement of changes in equity.

Income statement (extract)	31 March 2021	(Decrease)/ increase due to adjustment 1	Increase/ (decrease) due to adjustment 2	31 March 2021 (restated)
	£000	£000	£000	£000
Administrative expenses	(49,830)	(1,703)	-	(51,533)
Fair value loss on inflation swaps	(44,218)	-	11,766	(32,452)
Tax credit	10,316	239	(2,150)	8,405
Loss for the year from continuing operations	**(48,246)**	**(1,464)**	**9,616**	**(40,094)**

The £1,703,000 administrative expense is made up of £2,148,000 cost of ERP system, less £445,000 write back of depreciation on ERP system.

Statement of financial position (extract)	31 March 2021	Decrease due to adjustment 1	Increase/ (decrease) due to adjustment 2	Increase due to adjustment 3	31 March 2021 (restated)
	£000	£000	£000	£000	£000
Intangible assets	658,936	(2,895)	-	-	656,041
Trade and other receivables	88,250	-	-	7,592	95,842
Total assets	**2,585,579**	**(2,895)**	**-**	**7,592**	**2,590,276**
Retained earnings	513,427	(2,615)	9,616	-	520,428
Trade and other payables	243,154	-	-	7,592	250,746
Derivative financial instruments	57,691	-	(11,766)	-	45,925
Deferred tax liabilities	207,678	(280)	2,150	-	209,548
Total equity and liabilities	**2,585,579**	**(2,895)**	**-**	**7,592**	**2,590,276**

Statement of financial position (extract)	31 March 2020	Decrease due to adjustment 1	31 March 2020 (restated)
	£000	£000	£000
Intangible assets	672,617	(1,192)	671,425
Total assets	**2,591,812**	**(1,192)**	**2,590,620**
Accumulated losses	(133,477)	(1,151)	(134,628)
Deferred tax liabilities	223,278	(41)	223,237
Total equity and liabilities	**2,591,812**	**(1,192)**	**2,590,620**

Daiwater Investment Limited

Notes to the financial statements - accounting policies (continued)

Critical accounting estimates

The preparation of financial statements in conformity with UK-adopted International Accounting Standards requires the use of certain critical accounting estimates.

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Measured income accrual

The group records an accrual for measured consumption of water that has not yet been billed (refer to note 12). The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. Revenue for the year ended 31 March 2021 included a measured income accrual of £36,719,000. The value of billing recognised in the year ended 31 March 2022 for consumption in the prior year was £39,431,000.

This resulted in an increase of £2,712,000 in the current year's revenue due to the under-estimation of the prior year's revenue. This represented 0.85% of 2021/22 revenue and is within acceptable tolerance for accounting estimates.

Non-household wholesale revenue

The group has contracts with third parties operating in the non-household retail market for the supply of clean water (wholesale supply). The underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to such third-party retailers on behalf of non-household consumers. Revenue is recognised at the point at which the group has a right to receive the revenue. For non-household retailers, the amount of revenue which the group has a right to receive is determined by estimated non-household consumption volume data.

Loss allowance of trade receivables and contract assets

The group makes an estimate of the recoverable value of trade and receivables and contract assets, including the trade receivables that were transferred into the group as part of the sale proceeds of the sale of a former trading subsidiary, and records a loss allowance based on the age of the debt and experience (refer to note 12). This provision is based on, amongst other things, a consideration of actual collection history. At each reporting date, the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses and resultantly has accounted for an additional bad debt charge given the increase in the cost of living currently impacting our customers. This was calculated by applying an additional loss allowance provision to each segment of our customer base, based on the likely impact to that segment. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. Each 1% increase in the loss allowance for trade receivables and contract assets across each aged debt bracket would result in an additional bad debt charge of £373,000 (2021: £453,000) and a corresponding reduction in net assets. Each 1% decrease in the loss allowance for trade receivables and contract assets across each aged debt bracket would result in a reduction in the bad debt charge of £373,000 (2021: £453,000) and corresponding increase in net assets.

Daiwater Investment Limited

Notes to the financial statements - accounting policies (continued)

Critical accounting estimates (continued)

Defined benefit pension plan

The group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, inflation, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions (refer to note A5) reflect historical experience and current trends and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants. There are no restrictions to the realisability of the surplus relating to the defined benefit section of the pension plan; therefore, no adjustment has been made to the retirement benefit surplus recognised in accordance with International Financial Reporting Interpretations Committee 14: ‘The limit on a defined benefit asset, minimum funding requirements and their interaction’. A sensitivity analysis has been performed based on changing different assumptions – see note A5 for the impact of changes in assumptions used.

Impairment of goodwill and the water licence

Determining whether goodwill and the water licence have been impaired requires an estimation of Affinity Water Limited’s, the group’s main cash generating unit (CGU) constituting the smallest identifiable group of assets that generate cash flows for the group for which the carrying amount of the goodwill and water licence are allocated to, fair value less transaction costs. This fair value has been determined using a discounted cash flow, developed from a detailed business forecast, and applying a terminal value, in addition to an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. No impairment to goodwill (2021: £nil) has been recognised in the year ended 31 March 2022 (refer to note 8). Each 1% decrease to this fair value would lead to a £5,718,000 increase to the impairment at 31 March 2022 (2021: £4,937,000 increase). No impairment to the water licence has been recognised in the year ended 31 March 2022 (2021: £nil) (refer to note 8). A 1% impairment of the water licence would result in a charge of £3,008,000 (2021: £3,008,000) and a corresponding reduction in net assets.

Impairment of investment in subsidiary

Determining whether the company’s investment in its subsidiary has been impaired also requires an estimation of Affinity Water Limited’s fair value less transaction costs. This has been determined using the RCV of Affinity Water Limited at 31 March 2022, an estimate of the market premium that a private entity would pay for Affinity Water Limited and an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. The fair value of remaining debt payments associated with Affinity Water Limited’s debt at the year-end has been considered in the impairment assessment. The carrying amount of the investment in subsidiary at the date of the statement of financial position was £754,027,000 (2021: £754,027,000) with no impairment loss recognised in either the year ended 31 March 2022 or 2021. A 1% impairment of investment in subsidiary would result in a charge of £7,540,000 (2021: £7,540,000) and a corresponding reduction in net assets.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on management’s judgement and experience, which include the knowledge and research of the group’s dedicated asset management teams. Refer to note 6 for the carrying amount of property, plant and equipment and note A3 for the useful economic lives for each class of assets.

Notes to the financial statements - accounting policies (continued)

Critical accounting estimates (continued)

Useful economic lives of property, plant and equipment (continued)

Based on the current useful lives, the carrying amount of property, plant and equipment is £1,707,172,000 at 31 March 2022 (2021: £1,634,328,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,397,632,000 (2021: £1,339,474,000) and if they were 10% longer, the carrying amount would be £2,016,713,000 (2021: £1,929,182,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill, at 31 March 2022 is £329,958,000 (2021 (restated): £339,036,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £326,634,000 (2021: £336,396,000) and if they were 10% longer, the carrying amount would be £333,281,000 (2021: £347,464,000).

The above estimates have been calculated using the average useful life for each class of asset and assumes that the assets in each category are midway through their useful life.

Critical accounting judgements in applying the entity's accounting policies

The preparation of financial statements also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity are disclosed below.

Revenue recognition

IFRS 15: 'Revenue from contracts with customers' (IFRS 15) requires revenue to be recognised in line with the satisfaction of performance obligations identified within contracts between an entity and its customers, at an amount that reflects the transaction price allocated to each performance obligation. Particular challenges exist within the water industry as formal written contracts do not exist for most transactions with customers. Contracts are instead implied through statute and regulation. Judgement is therefore required in identifying the services contained within the contract and the customer with whom the contract is entered into, which in turn impacts on how the performance obligations are considered and therefore revenue recognised. Refer to note 1 for revenue recognised in the income statement.

Grants and contributions

Grants and contributions (consisting of contributions for diversions and requisitioned mains/extensions, and infrastructure charges) are received in respect of property, plant and equipment. Judgement is required in identifying what the performance obligation is for each type of contribution, which in turn impacts on how revenue is recognised.

Contributions received in respect of diversions, requisitioned mains/extensions and infrastructure charges are recognised over a period of time. Contributions received in respect of connections charges are recognised immediately in the income statement. Refer to note A3 for further detail on our accounting policies in relation to these. Refer to note 1 for revenue recognised in the income statement. Included within grants and contributions are contributions received relating to the HS2 rail programme, which crosses our supply area. These are shown within capital contributions in the statement of cash flows.

Cost capitalisation

The group capitalises expenditure on its infrastructure assets to property, plant and equipment where such expenditure enhances or increases the capacity of the network or relates to material replacements of network components. Any expenditure classed as maintenance is expensed in the year it is incurred. Distinguishing between enhancement and maintenance expenditure is a subjective area, particularly when projects have both elements within them. Refer to note 6 for the carrying amount of property, plant and equipment.

Notes to the financial statements - accounting policies (continued)

Capital risk management policy

The group's capital structure comprises borrowings, derivatives, debentures, cash and liquid resources. Refer to notes 17 and 14 for more details. The main purpose of these financial instruments is to provide finance for the group's operations. The group finances its operations through a mixture of retained profits, borrowings from its subsidiary companies and debentures.

It is the group's policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are liquidity risk, credit risk, and interest rate and inflation risk. Refer to note A4 for more details.

Climate change

The natural environment within which the company operates is constantly evolving due to the effects of climate change. This will influence how water is delivered by the company in the future.

The group is continually developing its assessment of the impact that climate change has on the assets and liabilities recognised and presented in its financial statements, such as the valuation of the property, plant and equipment, which could be impacted by either flooding or drought, or management's decision to replace assets as part of the company's Net Zero strategy. There has been no revaluation of assets during 2021/22 as a result of climate change.

The group established a Green Finance Framework during the year and issued its first green bond in October 2021 to finance projects which will adapt to and mitigate the effects of climate change.

Daiwater Investment Limited

Notes to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2022 £000	2021 £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**100,115**	96,981
Measured supplies	**155,232**	144,124
Non-household wholesale revenue	**51,111**	34,732
Connection charges	**7,989**	7,904
	314,447	283,741
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**573**	576
Diversions	**3,382**	1,201
Infrastructure charges	**1,145**	1,111
Other	**200**	153
	5,300	3,041
	319,747	286,782

All revenue is derived in the United Kingdom.

1.2 Assets and liabilities related to contracts with customers

The group has recognised the following assets and liabilities related to contracts with customers:

	2022 £000	2021 £000
Net trade receivables	**33,480**	24,505
Contract assets		
Unbilled accrual for metered customers – household customers	**40,847**	36,742
Unbilled accrual for metered customers – non-household customers	**3,506**	2,710
Contract liabilities		
Payments received in advance – household water supplies	**46,746**	41,217
Payments received in advance – non-household water supplies	**-**	2,948
Deferred income – water supplies	**207**	138
Deferred income – other	**622**	1,004
Deferred grants and contributions	**252,772**	154,175
Payments received in advance – grants and contributions	**27,023**	108,100

'Payments received in advance – grants and contributions' in the table above relate to contributions received from developers where the asset is still work in progress and not yet being depreciated. Once the asset is complete, the contribution is moved from 'payments received in advance – grants and contributions' to 'deferred grants and contributions' and amortised, to ensure the accounting treatment is consistent.

Daiwater Investment Limited

Notes to the financial statements (continued)

1. Revenue (continued)

1.2 Assets and liabilities related to contracts with customers (continued)

Significant changes in contract assets and liabilities

Up to 31 March 2022, the group had been reimbursed £154,187,000 (2021: £128,376,000) for its costs incurred in relation to the HS2 rail project, which will cross the Affinity Water supply area. During the year, in line with the group's accounting policy for grants and contributions received in respect of property, plant and equipment, which include contributions received for diversions, £98,478,000 (2021: £14,621,000) relating to costs for assets that have been commissioned was reclassified from payments in advance – grants and contributions to deferred grants and contributions. At 31 March 2022, £14,268,000 (2021: £91,916,000) of payments received were included in payments in advance – grants and contributions.

Recognition of trade receivables, contract assets and contract liabilities

For metered customers, a receivable is recognised when the customer is billed for the usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the group has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised in the income statement and the group discloses this as a contract asset in the statement of financial position (see table on the previous page). Where the group has not provided the service before payment is due, deferred income is recognised and the group discloses this as a contract liability in the statement of financial position (see table on the previous page).

For unmetered customers, the customer pays a fixed amount determined by the transaction prices set out in the group's charging scheme and tariff documents. If the payments received exceed the amount the group has the right to receive, the group recognises a payment received in advance and discloses this as a contract liability in the statement of financial position (see table on the previous page).

Where non-household retailers are billed monthly in advance for wholesale charges, as determined by billing/volume reports created by the market operator, the group recognises deferred income in relation to these accounts and presents this as a contract liability within trade and other payables. Where the group has not provided the service before payment is due, deferred income is recognised and the group discloses this as a contract liability in the statement of financial position (see table on the previous page).

Developers are billed for connection charges and contributions towards diversions and requisitioned mains/extensions in advance of work being performed by the group. The group recognises these payments as being received in advance and discloses them as contract liabilities in the statement of financial position (see table on the previous page).

Developers are billed for infrastructure charges once the connection has been completed; a trade receivable is immediately recognised at this point as the consideration is unconditional. These receivables are included in net trade receivables in the table on the previous page.

The group does not incur any costs to obtain or fulfil contracts that would be recognised as an asset under IFRS 15.

Daiwater Investment Limited

Notes to the financial statements (continued)

1. Revenue (continued)

1.2 Assets and liabilities related to contracts with customers (continued)

Revenue recognised in relation to contract liabilities

The following table sets out how much of the revenue recognised in the current reporting period relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	2022	2021
	£000	£000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	**41,217**	34,285
Payments received in advance – non-household water supplies	**2,948**	-
Deferred income – water supplies	**138**	72
Deferred income – other	**775**	434
Deferred grants and contributions	**5,300**	3,041
Payments received in advance – grants and contributions	**7,585**	11,320
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**-**	(264)

Revenue expected to be derived from unsatisfied performance obligations

IFRS 15 requires the disclosure of the aggregate amount of revenue, which is expected to be derived from performance obligations which are unsatisfied as at the end of the reporting year, i.e., the aggregate amount of future revenues from existing ongoing contracts.

The group has applied the practical expedient, set out in paragraph 121(a) of IFRS 15, not to disclose the amount in relation to water charges as the performance obligation is part of a contract that has an original expected duration of one year or less.

The unbilled accrual for measured income is a contract asset under IFRS 15. Historical information has proved to be an accurate indicator of current consumption and therefore the group deems it reasonable to conclude that the measured income accrual is materially correct.

At 31 March 2022, £154,294,000 (2021: £154,175,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting year.

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Notes to the financial statements (continued)

2. Operating profit/(loss)

2.1 Operating costs

The following items have been charged/(credited) to either cost of sales or administrative expenses in the consolidated income statement:

	2022 £000	2021 (restated) £000
Staff costs (note 4.1)	**55,367**	55,189
Profit on disposal of property, plant and equipment	**(244)**	(1,061)
Loss on disposal of infrastructure assets	**728**	1,408
Loss on disposal of intangible assets	**-**	-
Purchase of bulk water and water supplied under statutory entitlement	**8,440**	10,255
Water abstraction charges	**4,201**	3,984
Business rates	**15,551**	15,448
Chargeable services direct expenditure	**72**	283
Depreciation of infrastructure assets (note 6)	**12,286**	15,239
Depreciation of other property, plant and equipment (note 6)	**49,704**	51,086
Depreciation of right-of-use assets (note 7)	**3,763**	3,786
Amortisation of intangible assets (note 8)	**17,686**	16,692
Impairment of trade receivables and contract assets (note 12)	**9,389**	13,388
Research and development	**133**	126
Short-term lease rentals	**37**	115
Low-value lease rentals	**129**	91
Auditors' remuneration (note 2.3)	**457**	421
Cost of inventories used	**1,334**	714

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included on pages 72 to 73.

2.2 Other operating income

	2022 £000	2021 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**18,972**	17,657

The majority of other income relates to commission earned by Affinity Water Limited billing and collecting charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited (refer to note 25).

Notes to the financial statements (continued)

2. Operating profit/(loss) (continued)

2.3 Auditors' remuneration

During the year, the group obtained the following services from its Auditors and their associates:

	2022 £000	2021 £000
Fees payable to the company's auditors and their associates for the audit of the parent company and consolidated financial statements	**20**	15
Fees payable to the company's auditors and their associates for other services:		
Audit of the company's subsidiaries	**313**	289
Audit-related assurance services		
– regulatory reporting	**61**	56
– Thames Water and Anglian Water annual returns	**10**	10
– audit related assurance service - other	**47**	38
Other assurance services including services related to bond issue	**-**	6
Other non-audit services	**6**	7
Total Auditors' remuneration	**457**	421

3. Employees

3.1 Employee benefit expense (including Executive directors)

Group

	2022 £000	2021 £000
Wages and salaries	**62,408**	59,742
Social security costs	**6,667**	6,168
Other pension costs	**8,399**	8,223
Staff costs	**77,474**	74,133
Staff costs capitalised	**(22,107)**	(18,944)
Staff costs recognised in the consolidated income statement	**55,367**	55,189

Daiwater Investment Limited

Notes to the financial statements (continued)

3. Employees (continued)

3.2 Average number of people employed

The average monthly number of full-time equivalent persons (including Executive directors) employed by the group during the year was:

By activity	**2022 Number**	2021 Number
Operations	**854**	760
Customer service	**257**	240
Administration	**262**	262
	1,373	1,262

The company had no employees during the current year or prior year.

3.3 Directors' remuneration

The disclosure is provided in respect of the directors of Daiwater Investment Limited and their services in respect of the Daiwater Investment Limited group.

All the directors who sat on the Board of Daiwater Investment Limited were appointed by Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure plc did not receive any remuneration from the company, or any company within the group of companies headed by Daiwater Investment Limited. None of the directors of the company participate in the group's pension plans. The company does not have any listed shares and so the directors have not been offered any share incentives.

3.4 Key management personnel compensation

	2022 £000	2021 £000
Short-term employee benefits	**1,734**	1,270
Post-employment benefits	**105**	120
	1,839	1,390

Key management personnel are considered to be directors of group companies who do not sit on the Board of the company. Only executive directors and independent non-executive directors of Affinity Water Limited receive remuneration for their services as directors. Further information can be found within the remuneration report of Affinity Water Limited's Annual Report and Financial Statements for the year ended 31 March 2022 on its website: *affinitywater.co.uk/library*.

Daiwater Investment Limited

Notes to the financial statements (continued)

4. Finance income and costs

Group

	2022	2021 (restated)
	£000	£000
Finance income:		
Bank interest income	**192**	213
Net interest receivable on RPI linked inflation swap	**7,434**	6,792
Net interest receivable on CPI linked inflation swap	**6,929**	6,297
Fair value gains on bonds	**22,905**	23,434
Net income from post-employment benefits	**1,488**	2,468
	38,948	39,204
Finance costs:		
Accretion payable in respect of interest on bonds	**(35,047)**	(5,254)
Interest payable on bonds	**(37,401)**	(37,502)
Accretion payable on financial instrument	**(29,574)**	(4,564)
Interest payable on lease liabilities	**(333)**	(343)
Other	**(2,140)**	(1,973)
	(104,495)	(49,636)
Fair value gain/(loss) on financial instruments:		
Fair value loss on inflation swaps	**(31,295)**	(32,452)
	(31,295)	(32,452)
Net finance costs	**(96,842)**	(42,884)

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 72 to 73.

Company

	2022	2021
	£000	£000
Interest receivable from subsidiary undertakings	**-**	419
Total finance income	**-**	419

Notes to the financial statements (continued)

5. Income tax expense/(credit)

5.1 Income tax expense/(credit) included in the consolidated income statement

	2022	2021 (restated)
	£000	£000
Current tax:		
– UK corporation tax on losses for the year	**-**	3
– Adjustment in respect of prior years	**-**	(830)
Total current tax	**-**	(827)
Deferred tax:		
– Origination and reversal of temporary differences	**(7,109)**	(7,998)
– Impact of change in tax rate	**64,322**	-
– Adjustment in respect of prior years	**(2,449)**	420
Total deferred tax	**54,764**	(7,578)
Income tax expense/(credit)	**54,764**	(8,405)

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 72 to 73.

Tax expense assessed for the year is higher (2021: tax credit is lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2022 of 19% (2021: 19%). The differences are explained below:

	2022	2021 (restated)
	£000	£000
Loss before tax	**(44,741)**	(48,499)
Tax calculated at the standard rate of tax in the UK of 19% (2021: 19%)	**(8,501)**	(9,215)
Tax effects of:		
– Adjustments in respect of prior years	**(2,449)**	(410)
– Other expenses not deductible for tax purposes	**23**	1,220
– Impact of change in tax rate on deferred tax	**64,322**	-
– Non-taxable income	**(123)**	-
– Derecognition of deferred tax	**1,027**	-
– Unrelieved tax losses carried forward	**465**	-
Income tax expense/(credit)	**54,764**	(8,405)

5.2 Income tax expense/(credit) included in the statement of comprehensive income

	2022	2021
	£000	£000
Deferred tax:		
- Impact of change in tax rate on deferred tax	**1,725**	-
- Origination and reversal of temporary differences on retirement benefit surplus	**5,462**	(6,111)
	7,187	(6,111)

5. Income tax expense/(credit) (continued)

5.3 Factors that may affect future tax charges

In the Spring Budget 2021, the Government announced that from 1 April 2023 the Corporation Tax rate will increase to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

On 23 September 2022, it was announced that the corporation tax rate change from 19% to 25% with effect from 1 April 2023 was to be cancelled. This was not substantively enacted at the balance sheet date and therefore the impact of this change is not reflected in the measurement of deferred tax. If the rate change had been substantively enacted prior to 31 March 2022, the impact would have been to reduce the deferred tax liability by £66.0m with corresponding credits to the income statement and other comprehensive income of £64.3m and £1.7m respectively.

5.4 Reconciliation of current and deferred tax charge

	2022	**2022**	2021 (restated)	2021
	£000	**%**	£000	%
Group loss before tax	**(44,741)**		(48,499)	
Tax on loss on ordinary activities at standard UK tax rate of 19% (2021: 19%)	**(8,501)**	**19%**	(9,215)	19%
Tax effect of:				
Depreciation in excess of capital allowances	**10,759**	**(23%)**	10,580	(22%)
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group	**(2,821)**	**6%**	(2,921)	6%
Pension movements	**(183)**	**0%**	(394)	1%
Provisions movements	**(128)**	**0%**	(29)	0%
Expenses not deductible for tax purposes	**533**	**(1%)**	965	(2%)
Profit on sale of subsidiary	**(123)**	**0%**	-	-
Unutilised tax losses carried forward	**465**	**(1%)**	1,017	(2%)
Adjustment to tax charge in respect of prior years	**-**	**-**	(830)	2%
Reported current tax charge and effective rate	**1**	**0%**	(827)	2%
Depreciation in excess of capital allowances	**(11,258)**	**25%**	(10,326)	21%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group	**2,821**	**(6%)**	2,922	(6%)
Pension movements	**183**	**(0%)**	394	(1%)
Impact of change in tax rate on deferred tax	**64,321**	**(145%)**	-	-
Provisions movements	**128**	**(0%)**	29	(0%)
Derecognition of deferred tax	**1,017**	**(2%)**	-	-
Unutilised tax losses carried forward	**-**	**-**	(1,017)	2%
Adjustments to tax charge in respect of prior years	**(2,449)**	**6%**	420	(1%)
Reported deferred tax charge and effective rate	**54,763**	**(122%)**	(7,578)	16%
Group tax charge and effective rate	**54,764**	**(122%)**	(8,405)	17%

Daiwater Investment Limited

Notes to the financial statements (continued)

5. Income tax (credit)/expense (continued)

5.4 Reconciliation of current and deferred tax charge (continued)

Impact of change in tax rate

In the 2021 Spring Budget the Government announced that from 1 April 2023 the Corporation Tax rate will increase to 25%. The deferred tax liability at 31 March 2022 has been recalculated at 25% resulting in an additional deferred tax charge of £64.3m.

Depreciation in excess of capital allowances

The tax relief on our infrastructure assets is different from the depreciation of these assets in the financial statements (although over the total life of the assets the two amounts will be equal). In 2021/22, the amount written off for tax purposes was lower than the depreciation in the financial statements, resulting in a higher tax charge for the year. Some tax allowances were not claimed in order to reduce the amount of unutilised tax losses carried forward.

Write down of fair value adjustment

The write down of the fair value adjustment in respect of the acquisition of the Affinity Water Acquisitions (Investments) Limited group relates to the gain on revaluation of the assets and liabilities of the companies acquired in 2017/18. It is an accounting adjustment and is not subject to corporation tax.

Pension movements

Tax relief is given for the amount actually paid into the company's pension plan in the year, not the amount charged in the financial statements. In 2021/22, the amount paid into the pension plan was higher than the amount charged in the financial statements, resulting in a lower tax charge for the year.

Provisions movements

Some provisions charged in the financial statements are not deductible until the amounts provided are actually paid. Taxable profits in 2021/22 have been reduced by payments made in respect of provisions charged in previous years.

Expenses not deductible for tax purposes

These will not reverse in future years, therefore, the increase in the tax charge is permanent. Permanent disallowable expenses include fines, business entertaining and certain legal fees.

Unutilised tax losses carried forward

Tax losses that could not be utilised in the year have been carried forward to be offset against future profits. The losses carried forward will reduce tax payable in future years.

Adjustment to tax charge in respect of prior years

The tax provision in the financial statements is a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year-end. The correction made to the tax return for the year ended 31 March 2021 resulted in a lower tax charge, mainly as a result of claiming capital allowances.

Compliance with the group's tax strategy

All group companies were compliant with the group's published tax strategy during the year ended 31 March 2022. The tax strategy is published on Affinity Water Limited's website: *affinitywater.co.uk/investors*

Daiwater Investment Limited

Notes to the financial statements (continued)

6. Property, plant and equipment

Group

	Land, buildings and operational structures £000	Potable water distribution mains £000	Raw water pipes £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in course of construction £000	Total £000
Cost or deemed cost							
At 1 April 2021	**325,476**	**946,679**	**23,846**	**924,212**	**84,157**	**160,059**	**2,464,429**
Additions	**-**	**-**	**-**	**-**	**-**	**136,043**	**136,043**
Transfers	**1,903**	**114,816**	**-**	**12,014**	**7,899**	**(136,632)**	**-**
Disposals	**(441)**	**(857)**	**(4)**	**-**	**(427)**	**-**	**(1,729)**
At 31 March 2022	**326,938**	**1,060,638**	**23,842**	**936,226**	**91,629**	**159,470**	**2,598,743**
Accumulated depreciation							
At 1 April 2021	**(101,802)**	**(81,483)**	**(2,360)**	**(606,591)**	**(37,865)**	**-**	**(830,101)**
Charge for the year	**(4,761)**	**(11,956)**	**(330)**	**(40,142)**	**(4,801)**	**-**	**(61,990)**
Disposals	**99**	**83**	**-**	**-**	**338**	**-**	**520**
At 31 March 2022	**(106,464)**	**(93,356)**	**(2,690)**	**(646,733)**	**(42,328)**	**-**	**(891,571)**
Net book amount							
At 1 April 2021	**223,674**	**865,196**	**21,486**	**317,621**	**46,292**	**160,059**	**1,634,328**
Movement in year	**(3,200)**	**102,086**	**(334)**	**(28,128)**	**3,009**	**(589)**	**72,844**
At 31 March 2022	**220,474**	**967,282**	**21,152**	**289,493**	**49,301**	**159,470**	**1,707,172**

	Land, buildings and operational structures £000	Potable water distribution mains £000	Raw water pipes £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in course of construction £000	Total £000
Cost or deemed cost							
At 1 April 2020	321,929	905,139	23,860	883,814	83,049	119,769	2,337,560
Additions	310	-	-	-	-	128,114	128,424
Transfers	3,237	43,081	-	40,398	1,108	(87,824)	-
Assets classified as held for sale and other disposals	-	(1,541)	(14)	-	-	-	(1,555)
At 31 March 2021	325,476	946,679	23,846	924,212	84,157	160,059	2,464,429
Accumulated depreciation							
At 1 April 2020	(97,152)	(66,719)	(2,032)	(564,978)	(33,042)	-	(763,923)
Charge for the year	(4,650)	(14,910)	(329)	(41,613)	(4,823)	-	(66,325)
Assets classified as held for sale and other disposals	-	146	1	-	-	-	147
At 31 March 2021	(101,802)	(81,483)	(2,360)	(606,591)	(37,865)	-	(830,101)
Net book amount							
At 1 April 2020	224,777	838,420	21,828	318,836	50,007	119,769	1,573,637
Movement in year	(1,103)	26,776	(342)	(1,215)	(3,715)	40,290	60,691
At 31 March 2021	223,674	865,196	21,486	317,621	46,292	160,059	1,634,328

All land and buildings are held as freehold.

Company

The company does not have any property, plant or equipment.

Daiwater Investment Limited

Notes to the financial statements (continued)

7. Right-of-use assets

Group

	Buildings £000	Vehicles £000	Other £000	Total £000
Cost				
At 1 April 2021	**10,180**	**7,521**	**402**	**18,103**
Additions	**-**	**3,660**	**-**	**3,660**
Disposals	**(1,101)**	**(1,097)**	**(402)**	**(2,600)**
At 31 March 2022	**9,079**	**10,084**	**-**	**19,163**
Accumulated depreciation				
At 1 April 2021	**(2,896)**	**(4,298)**	**(402)**	**(7,596)**
Charge for the year	**(1,479)**	**(2,284)**	**-**	**(3,763)**
Disposals	**184**	**1,050**	**402**	**1,636**
At 31 March 2022	**(4,191)**	**(5,532)**	**-**	**(9,723)**
Net book amount				
At 1 April 2021	**7,284**	**3,223**	**-**	**10,507**
Movement in year	**(2,396)**	**1,329**	**-**	**(1,067)**
At 31 March 2022	**4,888**	**4,552**	**-**	**9,440**

	Buildings £000	Vehicles £000	Other £000	Total £000
Cost				
At 1 April 2020	9,079	6,789	402	16,270
Additions	1,101	756	-	1,857
Assets classified as held for sale and other disposals	-	(24)	-	(24)
At 31 March 2021	10,180	7,521	402	18,103
Accumulated depreciation				
At 1 April 2020	(1,397)	(2,207)	(230)	(3,834)
Charge for the year	(1,499)	(2,115)	(172)	(3,786)
Assets classified as held for sale and other disposals	-	24	-	24
At 31 March 2021	(2,896)	(4,298)	(402)	(7,596)
Net book amount				
At 1 April 2020	7,682	4,582	172	12,436
Movement in year	(398)	(1,359)	(172)	(1,929)
At 31 March 2021	7,284	3,223	-	10,507

Company

The company does not have any right-of-use assets.

Daiwater Investment Limited

Notes to the financial statements (continued)

8. Intangible assets

Group

	Goodwill	Billing relationships	Water licence	Computer software development costs	Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2021	**317,006**	**32,789**	**300,800**	**86,962**	**737,557**
Additions	**-**	**-**	**-**	**8,609**	**8,609**
At 31 March 2022	**317,006**	**32,789**	**300,800**	**95,571**	**746,166**
Accumulated amortisation					
At 1 April 2021	**-**	**(25,386)**	**-**	**(56,130)**	**(81,516)**
Charge for the year	**-**	**(6,561)**	**-**	**(11,125)**	**(17,686)**
At 31 March 2022	**-**	**(31,947)**	**-**	**(67,255)**	**(99,202)**
Net book amount					
At 1 April 2021	**317,006**	**7,403**	**300,800**	**30,832**	**656,041**
Movement in year	**-**	**(6,561)**	**-**	**(2,516)**	**(9,077)**
At 31 March 2022	**317,006**	**842**	**300,800**	**28,316**	**646,964**

	Goodwill	Billing relationships	Water licence	Computer software development costs	Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2020 (restated)	327,036	32,789	300,800	75,624	736,249
Additions (restated)	-	-	-	11,338	11,338
Disposals	(10,030)	-	-	-	(10,030)
At 31 March 2021 (restated)	317,006	32,789	300,800	86,962	737,557
Accumulated amortisation					
At 1 April 2020	-	(18,826)	-	(45,998)	(64,824)
Charge for the year (restated)	-	(6,560)	-	(10,132)	(16,692)
At 31 March 2021 (restated)	-	(25,386)	-	(56,130)	(81,516)
Net book amount					
At 1 April 2020 (restated)	327,036	13,963	300,800	29,626	671,425
Movement in year (restated)	(10,030)	(6,560)	-	1,206	(15,384)
At 31 March 2021 (restated)	317,006	7,403	300,800	30,832	656,041

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included on pages 72 to 73.

8. Intangible assets (continued)

Goodwill includes £447,036,000 arising on the acquisition of Affinity Water Acquisitions (Investments) Limited on 19 May 2017, with an impairment of £120,000,000 being recognised in 2018/19, and a £10,030,000 disposal of goodwill relating to Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) in 2020/21. Goodwill is reviewed at least annually for impairment and upon any indication of impairment.

The economic life of the water licence held by Affinity Water Limited has been determined to be indefinite, as the water licence is issued on a perpetual basis with a 25-year notice period. Therefore, the water licence is also reviewed at least annually for impairment and upon any indication of impairment.

No impairment to the water licence has been recognised in the year ended 31 March 2022 (2021: £nil).

Affinity Water Limited, the group's trading subsidiary, is the main cash generating unit (CGU). It constitutes the smallest identifiable group of assets that generate cash flows for the entity, by means of supplying drinking water to customers, for which the carrying amount of the goodwill and water licence are allocated to. The recoverable amount is based on the CGU's fair value less transaction costs, which has been determined using a discounted cash flow, developed from a detailed business forecast, and applying a terminal value, in addition to an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. This approach has been used as it is an industry-recognised valuation methodology.

An estimate of the terminal value has been determined through an analysis of the current market conditions, taking a prudent approach, using recent transactions in the UK water industry, publicly available share price information for listed water supply companies, and consideration of Affinity Water Limited's risk profile compared to other companies in the sector. This is a subjective area and changes in the conditions for judgements used in estimating a reasonable market premium could significantly affect the assessed value of goodwill in future periods. Each 1% decrease to this fair value would lead to a £5,718,000 increase to the impairment at 31 March 2022 (2021: £4,937,000 increase).

Included in the computer software asset category above is £12,532,000 (2021: £13,461,000) of capitalised intangible assets under construction, which is not amortised. £7,366,000 (2021: £9,921,000) of intangible projects under construction were completed in the year, and amortisation was charged as at the point in time that the software became fit for purpose and ready to use.

There were no individually material computer software development costs in the years ended 31 March 2022 or 31 March 2021.

Company

The company does not have any intangible assets.

9. Investments

Group

	2022	2021
	£000	£000
Non-current assets		
Investments	**51**	51
Current assets		
Short-term deposits	**70,179**	15,132

The directors confirm that the carrying value of the investments is supported by their underlying net assets.

Company

	2022	2021
	£000	£000
Investment in subsidiary	**754,027**	754,027

The investment balance in the company relates to Affinity Water Acquisitions (Investments) Limited. Determining whether the company's investment in its subsidiary has been impaired requires an estimation of the investment's fair value less transaction costs. This has been determined using the RCV of Affinity Water Limited at 31 March 2022 (being the group's principal trading subsidiary), an estimate of the market premium that a private entity would pay for Affinity Water Limited and an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. The fair value of remaining debt payments associated with Affinity Water Limited's debt at the year-end has been considered in the impairment assessment. The directors confirm that the carrying value of the investment as at 31 March 2022 and 31 March 2021 is supported by its underlying net assets and that the headroom is such that no reasonable change in any key assumptions is expected to result in impairment of the investment in subsidiary.

Daiwater Investment Limited

Notes to the financial statements (continued)

10. Retirement benefit surplus

Group

Defined benefit section

The net pension expense before taxation recognised in the income statement in respect of the defined benefit plan is:

	2022	2021
	£000	£000
Current service cost	**(4,061)**	(3,310)
Past service cost	**-**	(31)
Pension expense charged to operating profit/(loss)	**(4,061)**	(3,341)
Net pension interest income credited to finance income (note 4)	**1,488**	2,468
Net pension expense charged before taxation	**(2,573)**	(873)

The opening and closing retirement benefit surpluses included in the statement of financial position are summarised as follows:

	£000	£000
At 1 April 2021 / 1 April 2020	**74,532**	104,619
Employer contributions	**3,539**	2,948
Current service cost	**(4,061)**	(3,310)
Past service cost	**-**	(31)
Net interest income	**1,488**	2,468
Net re-measurement gain/(loss)	**28,749**	(32,162)
At 31 March 2022 / 31 March 2021	**104,247**	74,532

Re-measurement gains and losses are recognised directly in the statement of comprehensive income and are summarised as follows:

	2022	2021
	£000	£000
Re-measurement gains on plan assets	**8,249**	40,373
Re-measurement gains/(losses) on plan liabilities	**20,500**	(72,535)
	28,749	(32,162)

Further analysis and underlying valuation assumptions of the defined benefit plan are provided in note A5.

Company

The company does not have any retirement benefits.

11. Derivative financial instruments

Group

	2022 £000	2021 (restated) £000
Non-current assets		
Fair value of energy swaps	**7,342**	-
	7,342	-
Current assets		
Fair value of energy swaps	**20,646**	-
	20,646	-
Non-current liabilities		
Fair value of RPI linked inflation swaps	**24,224**	6,629
Accretion on RPI linked inflation swaps	**23,702**	7,721
Fair value of CPI linked inflation swaps	**43,729**	30,028
Accretion on CPI linked inflation swaps	**15,163**	1,547
	106,818	45,925

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 72 to 73.

A series of power hedging swaps were entered into between May 2021 and February 2022 in order to hedge against wholesale energy prices.

The fair value of energy swaps have been derived from ‘Level 2’ fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of energy swaps is calculated by discounting expected future cashflows based on market expectations of energy prices in the future.

An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in August 2018. A further RPI linked inflation swap with a nominal value of £75.0m, which is also linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in October 2020, with an effective date of 1 August 2020.

A CPI linked inflation swap with a nominal value of £25.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), was entered into in March 2020. Further CPI linked inflation swaps with a total nominal value of £225.0m, which are also linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), were entered into between April 2020 and June 2020.

The fair value of RPI and CPI linked inflation swaps have been derived from ‘Level 2’ fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of RPI and CPI linked inflation swaps is calculated by discounting expected future cashflows based on market expectations of RPI and CPI. The discount rate used reflects the credit risk of the company, which is consistent with IFRS 13: ‘Fair value measurement’.

Company

The company does not have any derivative financial instruments.

Notes to the financial statements (continued)

12. Trade and other receivables

Group

	2022 £000	2021 (restated) £000
Non-current:		
Other receivables	**-**	184
Current:		
Trade receivables	**66,517**	66,124
Less: loss allowance for trade receivables	**(33,037)**	(34,027)
	33,480	32,097
Receivables transferred on sale of subsidiary	**10,264**	11,019
Less: loss allowance for receivables transferred on sale	**(10,264)**	(8,319)
	-	2,700
Sales proceeds receivable	**-**	1,023
Interest receivable from external parties	**7,786**	7,630
Other receivables	**8,385**	5,194
Unbilled accrual for metered customers	**44,353**	39,452
Prepayments and accrued income	**10,213**	7,746
	70,737	61,045
	104,217	95,842

Trade receivables in Affinity Water Limited that were fully provided for were sold in both the current and prior year, resulting in a reduction to trade receivables of £6,813,000 (2021: £2,213,000) and a corresponding reduction in the loss allowance for trade receivables.

The prior year has been restated to reclassify £7,592,000 of credit balances on customers' accounts to other payables in note 16. Previously, this was netted off against trade receivables. Further details are included on pages 72 to 73.

The carrying amounts of trade and other receivables approximate to their fair value.

12. Trade and other receivables (continued)

12.1 Loss allowance for trade receivables and contract assets

Trade receivables and contract assets do not carry interest and are stated net of a loss allowance, as follows:

	Trade receivables		**Receivables transferred on sale of subsidiary**		**Unbilled accrual for metered customers**		**Total**	
	2022 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
At 1 April	**34,027**	34,585	**8,319**	-	**51**	269	**42,397**	34,854
Provision for receivables acquired during the year	**-**	-	**-**	3,249	**-**	-	**-**	3,249
Provision for receivables impairment charged/(credited) to the income statement	**7,394**	8,536	**1,945**	5,070	**50**	(218)	**9,389**	13,388
Sale of trade receivables that were fully provided for	**(6,813)**	(2,213)	**-**	-	**-**	-	**(6,813)**	(2,213)
Receivables written off during the year as uncollectable	**(1,571)**	(6,881)	**-**	-	**-**	-	**(1,571)**	(6,881)
At 31 March	**33,037**	34,027	**10,264**	8,319	**101**	51	**43,402**	42,397

See note A4 for details of the nature and the calculation of the loss allowance.

An additional charge to the income statement of £1,413,000 arising as a result of external economic factors including the increase in cost of living currently impacting our customers has been made during the year. This is included within the £9,389,000 total provision for receivables impairment credited to the income statement.

In the prior year, £2,346,000 of the £13,388,000 total provision for receivables impairment charged to the income statement was an additional charge arising as a result of Covid-19.

12.2 Ageing analysis of trade receivables and receivables transferred on sale of subsidiary

The aged analysis of receivables at the reporting date is as follows:

	2022 £000	2021 (restated) £000
Aged less than one year	**24,157**	22,406
Aged between one year and two years	**21,884**	29,862
Aged greater than two years	**30,740**	24,875
	76,781	77,143

The prior year has been restated to reclassify £7,592,000 of credit balances on customers' accounts to other payables in note 16. Previously, this was netted off against trade receivables aged greater than two years. Further details are included on pages 72 to 73.

Company

The company does not have any trade or other receivables

Notes to the financial statements (continued)

13. Inventories

Group

	2022 £000	2021 £000
Raw materials and consumables	**4,348**	4,080

Inventories are stated after provisions for impairment of £364,000 (2021: £364,000).

Company

The company does not have any inventories.

14. Cash and cash equivalents

Group

	2022 £000	2021 £000
Cash at bank and in hand	**49,279**	58,463
Term deposits	**101,125**	41,116
	150,404	99,579

The carrying amounts of cash and cash equivalents approximate to their fair value.

Company

The company does not have any cash or cash equivalents.

Notes to the financial statements (continued)

15. Share capital

Group and company

Allotted, called up and fully paid share capital	2022	2021
	£000	£000
744,133,355 (2021: 744,133,355) ordinary shares of £0.01 (2021: £0.01) each	**7,441**	7,441

The company was incorporated on 24 April 2017 with a share capital of 3 ordinary £1 shares. There was a further capital injection on 19 May 2017 for an amount of £744,133,352 upon the issuance of 272,070,036 Class B £1 shares, 199,993,280 Class C shares and 272,070,036 Class D £1 shares. On the same date the 3 original ordinary shares were converted into one Class B, one Class C and one Class D share.

Each share class rank pari passu on distribution of profits or capital. Voting rights for each share differs, with Class B carrying 0.92 votes, Class C carrying 1.24 votes and Class D carrying 0.91 votes at a general meeting and on a written resolution of the shareholders.

Allianz Capital Partners owned 272,070,037 of the above Class B shares, DIF owned 199,993,281 of the above Class C shares and HICL Infrastructure plc owned 272,070,037 of the above Class D shares.

On acquisition, each of the parties was granted an option to convert the voting rights attaching to Class B, C and D shares to Class A1, A2, and A3 shares. The option was exercised by Infrastructure Investments (Affinity) Limited via InfraRed Capital Partners Limited, the Investment Manager to HICL Infrastructure plc, on 7 January 2019 and the conversion occurred on 11 February 2019.

On 14 May 2019, InfraRed Capital Partners Limited triggered a further conversion right, which ultimately converted the Class A1, A2 and A3 shares to a single class of ordinary shares. The conversion to ordinary shares occurred on 12 June 2019, under which voting rights become proportional to the shareholders' economic interest.

In March 2021, the company effected a capital reduction by way of solvency statements, reducing the value of each share from £1 to £0.01, with the equity being transferred from share capital to retained earnings.

Notes to the financial statements (continued)

16. Trade and other payables

Group

	2022 £000	2021 (restated) £000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**25,509**	10,286
Amounts falling due after more than five years		
Deferred grants and contributions	**221,565**	140,520
	247,074	150,806
Current		
Amounts falling due within one year		
Trade payables	**22,166**	23,678
Interest payable to external parties	**14,750**	14,544
Social security and other taxes	**1,796**	1,654
Other payables	**406**	3,373
Capital accruals	**21,587**	16,833
Deferred grants and contributions	**5,698**	3,369
Payments received in advance	**81,980**	152,911
Deferred income	**843**	1,144
Other accruals	**38,820**	33,240
	188,046	250,746
	435,120	401,552

The prior year has been restated to reclassify £7,592,000 of credit balances on customers' accounts to payments received in advance. Previously, this was netted off against trade receivables in note 12. Further details are included on pages 72 to 73.

The carrying amounts of trade and other payables approximate to their fair value.

Company

The company does not have any trade and other payables.

Notes to the financial statements (continued)

17. Borrowings

Group

	2022 £000	2021 £000
Non-current		
Borrowings measured at amortised cost:		
Bonds	**1,505,072**	1,347,268
Bank term loan	**41,429**	40,973
3.5% irredeemable consolidated debenture stock	**-**	-
4% irredeemable consolidated debenture stock	**8**	8
4% irredeemable debenture stock	**1**	1
4.25% irredeemable debenture stock	**-**	-
5% irredeemable debenture stock	**24**	24
5.25% irredeemable debenture stock	**1**	1
	1,546,535	1,388,275

On 13 July 2004, Affinity Water Finance (2004) PLC, a subsidiary of the group, issued a £200,000,000 bond at an interest rate of 5.875% and repayable in July 2026. On 16 July 2014 Affinity Water Finance (2004) PLC completed a tap issue of £50,000,000 on the same terms as the existing £200,000,000 bond. The net proceeds of the bond issues and the tap issue were lent to Affinity Water Limited on the same terms.

On 4 February 2013, the group's former subsidiary Affinity Water Programme Finance Limited issued £80,000,000 Class A Guaranteed Notes maturing in September 2022 with a coupon of 3.625%, £250,000,000 Class A Guaranteed Notes maturing in March 2036 with a coupon of 4.500%, £150,000,000 Class A Guaranteed RPI linked Notes maturing in June 2045 with a coupon of 1.548% and £95,000,000 Class B Guaranteed RPI linked Notes maturing in June 2033 with a coupon of 3.249%.

On 29 October 2015, Affinity Water Programme Finance Limited completed a tap issue of its 1.548% RPI linked Notes maturing in June 2045 of £40,000,000 on the same terms as the existing 2045 Notes.

On 19 February 2016, Affinity Water Programme Finance Limited issued £10,000,000 Class B Guaranteed RPI linked Notes maturing in June 2033 with a coupon rate of 1.024%.

On 22 August 2016, Affinity Water Programme Finance Limited exchanged £65,800,000 of its 3.625% Guaranteed Notes due 2022 for a new issue of 3.278% Guaranteed Notes due 2042. An additional £19,200,000 of 3.278% Guaranteed Notes due 2042 were issued at the same time.

On 22 November 2017, Affinity Water Programme Finance Limited issued £60,000,000 Class A Guaranteed Notes maturing in November 2033 with a coupon of 2.699% and £60,000,000 Class A Guaranteed CPI linked Notes maturing in November 2042 with a coupon of 0.230%.

On 22 January 2019, the assets and liabilities of Affinity Water Programme Finance Limited were transferred to the group's subsidiary Affinity Water Finance PLC.

On 20 October 2021, Affinity Water Finance PLC issued £130,000,000 Class A Guaranteed CPI linked Notes maturing in September 2038 with a coupon rate of 0.010%.

The net proceeds of the bond issues and the tap issue were lent to Affinity Water Limited on the same terms.

17. Borrowings (continued)

Affinity Water Limited, a subsidiary of the group, has unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by Affinity Water Finance (2004) PLC and Affinity Water Finance PLC in respect of the bonds issued by these companies. These guarantees constitute direct, general and unconditional obligations of the company which will at all times rank at least pari passu with all other present and future unsecured obligations. The bonds issued are also guaranteed by Affinity Water Holdings Limited, the immediate parent undertaking of Affinity Water Limited.

The fair value of the bonds on-lent from the two financing subsidiaries at 31 March 2022 is £1,560,813,000 (2021: £1,496,837,000). The fair value of Class A bonds has been derived from ‘Level 1’ fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds has been derived from ‘Level 2’ fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of Class B bonds is calculated by discounting expected future cashflows at a discount rate which is derived from the yield on comparable instruments which are observable in the market.

Affinity Water Limited is subject to a number of covenants in relation to its borrowings, which, if breached, would result in its loans becoming immediately repayable. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to RCV. At the year-end Affinity Water Limited was not in breach of any financial covenants.

On 28 September 2017, Affinity Water Holdco Finance Limited borrowed £25,000,000 under a term loan facility with a commercial bank. The initial term of the loan was twelve months, which was subsequently extended to 30 June 2023. The proceeds of this loan were lent to Affinity Water Capital Funds Limited on the same terms. On 2 September 2022, Affinity Water Holdco Finance Limited refinanced its £42,000,000 bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years. The facility also contains an uncommitted accordion feature to increase the loan size to £75,000,000.

Company

The company does not have any borrowings.

Notes to the financial statements (continued)

18. Lease liabilities

Group

	2022 £000	2021 £000
Non-current:		
Lease liabilities	**6,329**	6,891
Current:		
Lease liabilities	**3,317**	3,801

The following amounts in respect of leases are included within these financial statements:

	2022 £000	2021 £000
Depreciation charge of right-of-use assets (refer to note 7)	**3,763**	3,786
Interest expense on lease liabilities (refer to note 4)	**333**	343
Expense relating to short-term leases (refer to note 2.1)	**37**	115
Expense relating to leases of low-value assets (refer to note 2.1)	**129**	91
Principal elements of lease payments included within cash flows from financing activities	**3,725**	3,723
Interest payments included within cash flows from operating activities	**333**	343
Total cash outflow for leases in the statement of cash flows	**4,058**	4,066
Additions to right-of-use assets (refer to note 7)	**3,660**	1,857
Disposals of right-of-use-assets (refer to note 7)	**(964)**	-
Carrying amount of right-of-use assets (refer to note 7)	**9,440**	10,507

Company

The company does not have any lease liabilities.

Daiwater Investment Limited

Notes to the financial statements (continued)

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

Group

	2022	2021 (restated)
	£000	£000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**(5,764)**	(3,912)
– Deferred tax asset to be recovered after more than 12 months	**(53,199)**	(46,395)
	(58,963)	(50,307)
Deferred tax liabilities:		
– Deferred tax liability to be settled within 12 months	**587**	1,531
– Deferred tax liability to be settled after more than 12 months	**329,876**	258,324
	330,463	259,855
Deferred tax liabilities - net	**271,500**	209,548

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included on pages 72 to 73.

The gross movement on the deferred tax account is as follows:

	£000
At 1 April 2020 (restated)	**223,237**
Credited to the income statement (restated)	(7,578)
Credited to other comprehensive income	(6,111)
At 31 March 2021 (restated)	209,548
Credited to the income statement	54,765
Credited to other comprehensive income	7,187
At 31 March 2022	**271,500**

Daiwater Investment Limited

Notes to the financial statements (continued)

19. Deferred tax liabilities (continued)

The movement in deferred tax assets and liabilities during the year is as follows:

19.2 Deferred tax liabilities

	Fair value adjustment on acquisition £000	Accelerated capital allowances £000	Retirement benefit obligations £000	Total £000
At 1 April 2020 (restated)	**77,778**	**179,354**	**19,878**	**277,010**
(Credited)/charged to the income statement (restated)	(1,531)	(9,907)	394	(11,044)
Credited to other comprehensive income	-	-	(6,111)	(6,111)
At 31 March 2021 (restated)	**76,247**	**169,447**	**14,161**	**259,855**
Impact of change in tax rate	23,595	50,350	6,255	80,200
(Credited)/charged to the income statement	(1,531)	(13,707)	184	(15,054)
Charged to other comprehensive income	-	-	5,462	5,462
At 31 March 2022	**98,311**	**206,090**	**26,062**	**330,463**

19.3 Deferred tax assets

	Fair value adjustment on acquisition £000	Provisions £000	Unrelieved tax losses £000	Total £000
At 1 April 2020	**53,144**	**628**	**-**	**53,772**
(Credited)/charged to the income statement	(4,453)	(29)	1,017	(3,465)
At 31 March 2021	**48,691**	**599**	**1,017**	**50,307**
Impact of change in tax rate	14,002	151	-	14,153
(Credited)/charged to the income statement	(4,352)	(128)	(1,017)	(5,497)
At 31 March 2022	**58,341**	**622**	**-**	**58,963**

Deferred tax balances were recognised on the fair value adjustments made to the assets and liabilities acquired by the group on 19 May 2017.

At 31 March 2022, the group had unused tax losses of £7,798,000 (2021: £5,354,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to restrictions over accessing these losses in the future.

Company

The company does not have any deferred tax assets or liabilities.

20. Provisions for other liabilities and charges

Group

	Insurance £000	Reorganisation £000	Other £000	Total £000
At 1 April 2020	**4,837**	**607**	**670**	**6,114**
Charged to the income statement	469	-	-	469
Utilised in the year	(2,580)	(429)	-	(3,009)
At 31 March 2021	2,726	178	670	3,574
(Credited)/charged to the income statement	(105)	2,947	-	2,842
Utilised in the year	(184)	(3,125)	-	(3,309)
At 31 March 2022	**2,437**	**-**	**670**	**3,107**

Insurance

Provisions for insurance represent the amount of the group's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience. The full balance of £2,437,000 is presented as a non-current liability in the group's consolidated statement of financial position.

Included within the provision as at 31 March 2021 is an amount of £184,000, which was recoverable from the group's insurer. The provision above is shown gross, with the corresponding receivable disclosed as a non-current other receivable on the group's consolidated statement of financial position in the prior year.

Reorganisation

The reorganisation provision includes £2,947,000 in relation to a corporate reorganisation, which was charged and utilised in the income statement during the year. A provision of £178,000 remaining from a previous reorganisation was also utilised during the year. This was presented as a current liability in the statement of financial position in the prior year.

Other provisions

Other provisions of £670,000 (2021: £670,000) relate to unfunded pension liabilities for a former Non-Executive director, which it is expected will be utilised by January 2051, and therefore presented as a non-current liability in the group's consolidated statement of financial position.

Company

The company does not have any provision for liabilities and other charges.

21. Dividends

	2022	2021
	£000	£000
First interim dividend paid of nil per share (2021: 2.2845p per share)	**91**	17,106
	91	17,106

Dividends of £91,000 (2021: £104,000) were paid to non-controlling interest from group subsidiaries.

22. Discontinued operations

22.1 Description

On 11 March 2020, Castle Water Limited announced plans to merge with Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), one of the group's trading subsidiaries. The entity was sold to Castle Water Limited on 1 April 2020 and subsequently changed its name on 3 April 2020.

The group received consideration of £11,895,000 and recognised a gain on disposal of £1,601,000 in the prior year.

22.2 Sales proceeds and gain on disposal

	2022	2021
	£000	£000
Sales proceeds		
Initial consideration	-	9,500
Additional proceeds received	-	2,395
	-	11,895
Less:		
Liabilities arising on sale	-	(10,294)
Gain on disposal	**-**	1,601

Notes to the financial statements (continued)

23. Notes to the statement of cash flows

23.1 Cash generated from operations

Group

	2022 £000	2021 (restated) £000
(Loss)/profit before tax from:		
Continuing operations	**(44,741)**	(48,499)
Discontinued operations	**-**	1,601
Loss before tax including discontinued operations	**(44,741)**	(46,898)
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**61,990**	66,325
Amortisation of grants and contributions	**(5,300)**	(3,041)
Depreciation of right-to-use assets (note 7)	**3,763**	3,786
Amortisation of intangible fixed assets (note 8)	**17,686**	16,692
Profit on disposal of property, plant and equipment	**(244)**	(1,061)
Profit on disposal of trading subsidiary	**-**	(1,601)
Loss on disposal of infrastructure assets	**728**	1,408
Post-employment benefits	**522**	393
Net finance costs (note 4)	**96,842**	42,884
Net gain on energy swaps	**(27,988)**	-
Changes in working capital		
– Inventories	**(268)**	(1,063)
– Trade and other receivables	**(7,931)**	24,777
– Trade and other payables		
– provision element	**(467)**	(2,540)
– other	**7,916**	(5,990)
Cash generated from operations	**102,508**	94,071

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 72 to 73.

Company

	2022 £000	2021 £000
Profit before tax from:		
Continuing operations	**-**	1,632
Discontinued operations	**-**	-
Profit before tax including discontinued operations	**-**	1,632
Adjustments for:		
Finance income (note 4)	**-**	(419)
Cash generated from operations	**-**	1,213

Daiwater Investment Limited

Notes to the financial statements (continued)

23. Notes to the statement of cash flows (continued)

23.2 Reconciliation of liabilities arising from financing activities

Group

	At 1 April 2021 £000	Cash flow £000	Non-cash flows £000	At 31 March 2022 £000
Bonds	**1,347,268**	**146,994**	**10,810**	**1,505,072**
Bank term loan	**40,973**	**-**	**456**	**41,429**
Lease liabilities	**10,692**	**(4,058)**	**3,012**	**9,646**
Debenture stock	**34**	**-**	**-**	**34**
Total liabilities arising from financing activities	**1,398,967**	**142,936**	**14,278**	**1,556,181**

	At 1 April 2020 £000	Cash flow £000	Non-cash flows £000	At 31 March 2021 £000
Bonds	1,366,264	-	(18,996)	1,347,268
Bank term loan	25,000	15,631	342	40,973
Lease liabilities	12,559	(4,064)	2,197	10,692
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	1,403,857	11,567	(16,457)	1,398,967

Non-cash flows relate to loan indexation and amortisation of bond issuance costs, and net additions of leases.

Company

The company has no liabilities arising from financing activities.

24. Commitments

24.1 Capital commitments

Capital expenditure contracted for at the end of the reporting year but not yet incurred is as follows:

Group

	2022 £000	2021 £000
Property, plant and equipment	**31,985**	19,072
Intangible assets	**2,069**	1,756
	34,054	20,828

Company

The company does not have any capital commitments.

24.2 Commitments under leases

The group leases two buildings and most of its vehicles under non-cancellable operating leases expiring within a maximum of five years. The leases have varying terms, clauses and renewal rights.

The group also leased IT server space until 31 December 2021.

The group does not expect to extend any vehicles leases after their lease term has expired. The group will assess closer to the expiry of the lease of the buildings whether further formal agreements will be entered in to.

From 1 April 2019, the group has applied IFRS 16 and recognised right-of-use assets for these leases, (except for short-term and low-value leases which are not within the scope of IFRS 16), see note 18 for further information.

The future aggregate minimum lease payments for operating leases not within the scope of IFRS 16 are as follows:

Group

	2022 £000	2021 £000
No later than one year	**76**	90
Later than one year and no later than five years	**98**	168
Later than five years	**-**	-
	174	258

Company

The company does not have any commitments under operating leases.

25. Billing on behalf of Thames Water and Anglian Water

The group's principal trading subsidiary, Affinity Water Limited, bills and collects charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited. No amounts are included in these financial statements in respect of uncollected sewerage and sewerage infrastructure charges at 31 March 2022 (2021: £nil), and the group incurs no bad debt risk in relation to this service.

26. Events after the reporting period

On 2 September 2022, Affinity Water Holdco Finance Limited refinanced its £42,000,000 bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years. The facility also contains an uncommitted accordion feature to increase the loan size to £75,000,000.

On 7 September 2022, it was announced that Keith Haslett would be appointed as Chief Executive Officer of Affinity Water Limited, taking over from Stuart Ledger who had stepped up as interim Chief Executive Officer. Stuart Ledger would also not return to his previous position of Chief Financial Officer, with the recruitment for that position in progress.

On 23 September 2022, it was announced that the corporation tax rate change from 19% to 25% with effect from 1 April 2023 was to be cancelled. Please refer to note 5 for more details.

On 30 September 2022, the group repaid its £14,204,000 Class A fixed rate bond.

27. Ultimate parent company and controlling party

Daiwater Investment Limited, a company registered in England and Wales, is the parent undertaking of the largest group to consolidate the statutory financial statements of this group for the year ended 31 March 2022, and only group to consolidate the company.

The directors consider Daiwater Investment Limited as the ultimate holding and controlling company in the United Kingdom.

The directors consider the following entities to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc (up until 1 July 2020, InfraRed Capital Partners (Management) LLP).

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners' investment strategy is targeted to generate attractive, long-term, and stable returns while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America, and Australia.

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL Infrastructure plc has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL Infrastructure plc is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and renewable energy investments. On 1 July 2020, Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

Daiwater Investment Limited

Notes to the financial statements – appendices

A1. General information

The group owns and manages the water assets and network in an area of approximately 4,500km^2 split over three supply regions, comprising eight separate water resource zones, in the South East of England. Affinity Water Limited, the group's principal trading indirect subsidiary, is the sole supplier of drinking water in these areas.

The company manages an investment in Affinity Water Acquisitions (Investments) Limited.

The company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 27 for details of the company's controlling company.

A2. Segmental reporting

In the same way that financial information is reported on a quarterly basis to the Board, the group's chief operating decision maker, during the current and previous financial year on a combined basis, the group and company present their results under a single segment for financial reporting purposes.

A3. Accounting policies

Property, plant and equipment

Property, plant and equipment are held at the fair value on acquisition on 19 May 2017 less accumulated depreciation and impairment charges.

Infrastructure assets comprise a network of mains and associated underground pipework. Infrastructure assets are held at deemed cost established through an event-driven valuation on acquisition by Daiwater Investment Limited and subsequent additions are recorded at historical cost less accumulated depreciation and impairment charges.

For accounting purposes, the network is segmented into components based on the material used to construct the pipe concerned. The estimated useful economic lives of infrastructure pipes are based on management's judgement and experience, which includes the knowledge and research of the group's dedicated asset management teams. Where management identifies that the actual useful economic life of an asset significantly differs from the estimate used to calculate its depreciation, the depreciation charge is adjusted prospectively.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the group. The carrying amount of the replaced part is derecognised. Costs of day-to-day servicing of network components are recognised in the income statement as they arise.

Cost of other property, plant and equipment includes own work capitalised comprising the direct costs of materials, labour and applicable overheads.

A3. Accounting policies (continued)

Property, plant and equipment (continued)

Property, plant and equipment are depreciated to their estimated residual values over their estimated useful lives using the straight-line method, except for freehold land which is not depreciated. Assets in the course of construction are not depreciated until commissioned. The estimated useful lives of property, plant and equipment are:

Infrastructure assets	
Potable water distribution mains	50-150 years
Raw water pipes	50-150 years
Other property, plant and equipment	
Buildings	40-60 years
Operational structures	5-85 years
Fixed plant – short life	3-10 years
– other	10-30 years
Vehicles and mobile plant	3-10 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating profit.

The group is required to evaluate the carrying value of its property, plant and equipment for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review in such circumstances requires management to make subjective judgements concerning the future cash flows, growth rates and discount rates of the asset under review.

A3. Accounting policies (continued)

Intangible assets

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets of the subsidiary acquired. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill is not amortised but is reviewed for impairment at least annually. Impairment reviews are also carried out if there is an indication that impairment may have occurred, or, where otherwise required, to ensure that intangible assets are not carried above their estimated recoverable amounts. Goodwill is allocated to the CGU that derives benefit from the goodwill for impairment testing purposes. Impairments are recognised immediately in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets only if they meet the criteria of IAS 38: 'Intangible Assets', in that it is a separable, identifiable asset and it has a future economic benefit.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred, including costs associated with cloud computing arrangements.

Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives, which does not exceed five years. Amortisation charged on assets with finite lives is recognised in the income statement in operating costs.

Water licence

The remaining economic life of the water licence has been determined to be indefinite, as the water licence is issued on a perpetual basis with a 25-year notice period.

Billing relationships

A remaining economic life of five years has been determined for the billing relationships based on the length of the revenue stream forecast used in calculating the fair value of the billing relationships on acquisition. Amortisation charged is recognised in the income statement in operating costs.

Impairment

Intangible assets are reviewed for impairment where indicators of impairment exist. Impairments are recognised immediately in the income statement.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Grants and contributions

Grants and contributions received in respect of property, plant and equipment where the performance obligation is deemed to be satisfied over time (consisting of contributions for diversions and requisitioned mains/extensions, and infrastructure charges), are treated as deferred income and released to revenue over the useful economic life of the property, plant and equipment to which they relate once these assets have been commissioned.

The group may be contracted by developers in its statutory supply area to relocate a pipe, which is already in the ground; this is known as a diversion. The group may also be contracted by developers in its statutory supply area to provide a new water main or new sewer; this is known as a requisition/extension. Contributions received in respect of diversions and requisitioned mains/extensions are treated as deferred income and released to revenue over time as the group considers that the obligation to provide these services is highly interrelated with the ongoing obligation to provide water services; therefore, the performance obligation is considered to be satisfied over the period that the property, plant and equipment constructed are in service.

Infrastructure charges are charges levied on developers for network reinforcement, which is not site specific, i.e., to fund expenditure which will contribute towards wider network reinforcement work away from the development site. Infrastructure charges are treated as deferred income and released to revenue over time as there is an implied ongoing performance obligation to improve and maintain the wider network in order to provide an ongoing supply of water services.

Grants and contributions received in respect of property, plant and equipment where the performance obligation is deemed to be satisfied at a point in time (comprising payments for connection charges) are recognised immediately in the income statement once the performance obligation is fulfilled.

Connection charges are billed to developers for the provision of a connection to an existing water main, laying a pipe to the boundary of customers' properties and connecting to their supply pipes. Connection charges are recognised in revenue in the income statement in the year that they became receivable; the performance obligation has been identified as the connection of a service pipe to the main. Once the connection is made, the performance obligation is fulfilled, and the income recognised immediately in the income statement.

Each of these types of grants and contributions (contributions for diversions and requisitioned mains/extensions, infrastructure charges, and connection charges) is not a government grant within the scope of IAS 20: 'Accounting for government grants and disclosure of government assistance' as the contributions are received from developers. While there may not be a written contract with the customer, the legal duties of the group under the Water Industry Act 1991 would seem to constitute a legally enforceable contract based on the transaction prices set out in the group's charges scheme, tariff documents and invoices; accordingly, these grants and contributions fall within the scope of IFRS 15.

Investments

The company's investments in subsidiaries are held at cost less accumulated impairment losses.

Short-term investments are deposits that cannot be withdrawn prior to maturity and are held at cost.

A3. Accounting policies (continued)

Trade and other receivables

Trade and other receivables are recognised initially at transaction price. The company holds the trade receivables with the objective of collecting the contractual cash flows, and therefore the trade and other receivables are subsequently measured at amortised cost using the effective interest method, less expected credit losses.

Expected credit losses are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivable that are considered to be of greater risk and also to trade receivables of greater age. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date, the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses, for example Covid-19 or the increased cost of living currently impacting its customers. To estimate the impairment to its trade receivables from either of these factors, the group has assessed its receivables based on postcode driven customer demographics. The group has assessed what it believes to be the sensitivity of each demographic to the current and emerging effects of these factors on household finances and ability to maintain payments.

The group applies the IFRS 9: 'Financial Instruments' (IFRS 9) simplified approach for measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and overdue days. Contract assets relate to unbilled metered consumption and have substantially the same risk characteristics as trade receivables for the same types of contract. The group has therefore concluded that expected loss rates for trade receivables are a reasonable approximation for loss rates for contract assets.

Inventories

Inventories are valued at the lower of cost or net realisable value after allowance for obsolete and slow-moving items. In accordance with established practice in the water industry, no value has been placed upon the water in reservoirs, mains or in the course of treatment.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 12 months or less. Term deposits with original maturities longer than three months can be redeemed early, subject to the interest income being forfeited or reduced to reimburse any cost incurred by the counterparty. These are classed as cash and cash equivalents if the deposit can be redeemed to meet short term cash needs and there is no risk of a significant change in value as the result of an early withdrawal. Deposits that cannot be withdrawn prior to maturity are classed as short-term investments.

A3. Accounting policies (continued)

Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholder's funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholder's funds, respectively.

The current tax charge is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

Deferred taxation is provided in full, using the liability method, on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent that it is probable that sufficient taxable profits will be available in the future to utilise it. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Trade and other payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payments received in advance and measured and unmeasured deferred income are contract liabilities under IFRS 15 and relate to advance contributions received in respect of connection charges, diversions and requisitioned mains/extensions and customer payments in advance for measured and unmeasured supplies.

Borrowings

All loans are recognised initially at fair value plus directly attributable transaction costs. The carrying amount of the debt is increased by the amortisation of the finance and transaction costs determined using the effective interest rate in respect of the accounting period and reduced by any payments made in the year. The finance cost recognised in the income statement is allocated to accounting periods over the term of the debt using the effective interest method.

An exchange of debt with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. At the point of refinancing, all costs relating to the previous debt are written off to the income statement in full.

A3. Accounting policies (continued)

Financial instruments

Financial instruments such as derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. Gains or losses arising on revaluation are recorded in the income statement in the year in which they arise and are shown within either fair value gain/(loss) on inflation swaps or fair value gain/(loss) on energy swaps on the face of the consolidated income statement. Interest received or incurred on these derivative financial instruments is shown within finance income and finance costs on the face of the consolidated income statement.

Provisions

A provision is recognised when the group has a legal or constructive obligation as the result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Ofwat assesses the principal trading subsidiary's operational performance against agreed performance commitments. Certain performance commitments contain an Outcome Delivery Incentive, which can carry a financial reward or penalty, or both, which will be recognised as a revenue adjustment in the next charging period. The principal trading subsidiary adjusts future tariffs to reflect such amounts and therefore the benefit or cost is linked to the provision of future services as well as future performance. Resultantly the group does not recognise a provision for penalties or rewards in the financial year in which they are incurred or achieved as these amounts are not an asset or liability at the balance sheet date.

Assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations. The results of discontinued operations are presented separately in the income statement.

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Revenue recognition

The group's core revenue stream is derived from the supply of clean water. The IFRS 15 definition of a contract is met since the UK Government has contracted with the group on behalf of customers by granting the group its water supply licence, where the underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to customers. Under IFRS 15, revenue is measured at the transaction price and is recognised as the customer receives the benefit of the water supply through consuming the water:

- for metered customers, the amount which the group has a right to receive is variable, determined by the volume of water consumed; and
- for unmetered customers, the amount which the group has a right to receive is determined by the passage of time during which a customer occupies a property to which water is supplied by the group.

The group has contracts with third parties operating in the non-household retail market for the supply of clean water (wholesale supply). The underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to such third-party retailers on behalf of non-household consumers. Revenue is recognised at the point in which the group has a right to receive the revenue. For non-household retailers, the amount which the group has a right to receive is determined by non-household consumption volume data.

For metered household customers, a receivable is recognised when the customer is billed for the usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the group has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised in the income statement offset by a contract receivable within assets. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information.

Unmetered customers pay a fixed amount determined by the transaction prices set out in the group's charging scheme and tariff documents. If the payments received exceed the amount the group has the right to receive (i.e., unearned income), the group recognises a payment received in advance and discloses this as a contract liability within trade and other payables.

Where non-household retailers are billed monthly in advance for wholesale charges, as determined by billing/volume reports created by the market operator, the company recognises deferred income in relation to these accounts and presents this as a contract liability within trade and other payables.

The recognition of revenue from grants and contributions billed to developers is detailed in the grants and contributions accounting policy.

Revenue is recognised if it is probable that it will be received considering the customer's ability and intention to pay that amount of consideration when it is due. The group is under a statutory obligation to maintain water services to domestic properties within the areas defined in its water supply licence. As a result, the group may provide water services to customers who are unlikely to pay for these services. The group does not recognise revenue where historical evidence indicates that the group will probably never be able to collect the revenue billed.

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment terms exceeds one year. The group therefore does not adjust any of its transaction prices for the time value of money.

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Other income

Other income includes all income derived from sources associated with the ordinary activities of the business, other than revenue derived from the regulatory activities of the business. Other income, including mast rentals and billing and collections services, involves readily identifiable contracts with customers with clearly defined performance obligations to which prices are allocated. Income is recognised as the contracts are completed and the performance obligations satisfied. It is stated net of value added taxes.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that subsequently become credit impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Leases

The group leases one building, following the disposal of the lease of a second building during the year, and most of its vehicles.

Rental contracts for vehicles are typically for fixed periods of two to five years. The group has an option to extend its leases; however, no contracts are reasonably certain to be extended after their lease term has expired. The lease contract of the building has a remaining period of 3.5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The group's lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

The group also leased some physical IT server space that was accounted for under IFRS 16 up to 31 December 2020. The lease was subsequently renewed to 31 December 2021 and treated as a short-term operating lease. All remaining IT server space has been provided through a hosting service; therefore, it is out of scope of IFRS 16 as there is not a physically distinct identifiable asset. Costs are recognised on a straight-line basis as an expense in profit or loss.

The group applies recognition exemptions to short-term leases and leases of low-value assets. Short-term leases are leases with a term of 12 months or less. Low-value assets comprise small items of office equipment and IT equipment, typically costing no more than £5,000. Costs are recognised on a straight-line basis as an expense in profit or loss.

Leases falling within the scope of IFRS 16 are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Leases (continued)

The group's accounting policy is for assets and liabilities arising from a lease to be initially measured on a present value basis. Lease liabilities include the net present value of one or more of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising one or more of the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Lease payments may be discounted using the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined. The incremental borrowing rate is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The company uses an independent third-party to determine the incremental borrowing rate for each class of lease. The weighted average lessee's incremental borrowing rate applied to the lease liabilities during the year was 2.37%. The incremental borrowing rate is re-determined annually and applied to new leases for the subsequent year.

The group enters into agreements with employees to use vehicles that it leases from a third party as a company vehicle. These agreements are considered by the group to be part of the overall compensation package of an employee and, as such, the group has applied IAS 19 'Employee benefits' in accounting for these arrangements rather than considering the arrangements as subleases of vehicles to employees under IFRS 16.

The group does not use sale and leaseback transactions.

Grafham reservoir

Under the Great Ouse Water Act of 1961, the group has an entitlement to water from the Grafham reservoir owned and operated by Anglian Water Services Limited Anglian Water'). The group pays Anglian Water a charge for the supply of water, which covers its share of the overall costs of running Grafham reservoir. These costs are recognised as an expense within cost of sales in the income statement as incurred.

A3. Accounting policies (continued)

Retirement benefits

The group operates a pension plan, the Affinity Water Pension Plan (AWPP) providing defined benefits based on final pensionable salary. The assets of the plan are held separately from those of the group. The plan's corporate trustee is a subsidiary of the group.

Affinity Water Limited was the AWPP's Principal Employer up until 31 August 2020, with former group company Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) being a Participating Employer of the AWPP up until this date. Since this date, Affinity Water Limited has been the sole employer.

The group bears all the risks and rewards associated with the scheme and therefore recognises all the remeasurement gains and losses on the plan assets and liabilities.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current year (to determine current service cost) and to the current and prior years (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised immediately in the income statement.

When a settlement or a curtailment occurs, the changes in the present value of the plan liabilities and the fair value of the plan assets reflect the gain or loss which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

The retirement benefit surplus or deficit in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Re-measurement gains and losses arising from changes in actuarial assumptions are charged or credited to shareholder's funds in other comprehensive income in the year in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit asset or liability.

Contributions to the defined contribution section of the plan are recognised within cost of sales and administrative expenses in the income statement in the year in which they become payable.

The group also has an obligation to pay pensions to former Non-Executive directors of predecessor companies. A provision in respect of the obligation is included within the net pension asset or liability.

Dividend distributions

Dividend distributions to the group's shareholders are recognised as a liability in the group's financial statements in the year in which the dividends are approved, until they are paid.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management

Risk management

The group's financial instruments comprise borrowings, derivatives, debentures, cash and liquid resources, lease liabilities and various items, such as trade receivables and trade payables that arise directly from operations. The main purpose of these financial instruments is to provide finance for the group's operations. The group finances its operations through a mixture of retained profits, borrowings from its subsidiary companies and debentures.

It is the group's policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are liquidity risk, credit risk, energy risk, interest rate risk and inflation risk. Treasury policies in relation to these risks are agreed in conjunction with the wider group of companies headed by Daiwater Investment Limited.

The Board reviews and agrees policies for managing each of these risks (refer to page 5 of the strategic report for further information on management of these risks). These policies have remained unchanged during the year.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. A treasury report is provided quarterly to the Board, which summarises treasury activities and includes details on the group's position in regard to debt and cash at the end of each quarter.

The group's treasury function does not act as a profit centre and does not undertake speculative transactions.

A4. Financial instruments and risk management (continued)

Liquidity risk

Group

The objective of the group's liquidity risk management policy is to ensure that the group has banking arrangements and adequate, though not excessive, cash balances, revolving credit facilities and standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives.

Liquidity risk is primarily managed by maintaining a level of liquidity such that there are sufficient cash balances and committed loan facilities capable of immediate draw down to cover as a minimum the next 12 months' forecast cash requirement ensuring that over-reliance is not placed on any one counterparty, whether through cash holdings or available facilities.

Liquidity is actively monitored by the group's treasury function and reported to the relevant company's Board on a quarterly basis through the treasury report.

At 31 March 2022, the group had £375,583,000 (2021: £269,711,000) of available liquidity, which comprised £220,583,000 (2021: £114,711,000) of cash and term deposits and £155,000,000 (2021: £155,000,000) of undrawn committed borrowing facilities.

The group entered into RPI linked inflation swaps in August 2018 and October 2020, and between March 2020 and June 2020 entered into a series of CPI linked inflation swaps, as detailed in the interest rate and inflation risk section of note A4.

These transactions lead to a net interest receivable cashflow over the life of the swaps, offset by an accretion payment on maturity (2026 for the RPI swaps and either 2030 or 2036 for the CPI swaps). There is no liquidity risk prior to these dates as there is no requirement to pay collateral prior to maturity. On maturity, a final accretion payment will be made based on the mark to market valuation at that date, resulting in a total forecast cash payment of £110,163,000 (2021: £76,653,000), included in the maturity analysis table. The mark to market valuation is reviewed on a monthly basis and a forecast accretion payment is reviewed annually to ensure sufficient cash balances can be made available if required.

Undrawn borrowing facilities:

	2022	2021
	£000	£000
Floating rate:		
– Expiring within one year	**55,000**	55,000
– Expiring in more than one year	**100,000**	100,000
	155,000	155,000

The facilities expiring within one year comprise two standby facilities with one counterparty (2021: two counterparties) in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £32,000,000 (2021: £32,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £23,000,000 (2021: £23,000,000), which is intended for the purpose of funding operating and capital maintenance expenditure.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Group (continued)

The facilities expiring in more than one year comprise two revolving credit facilities, £60,000,000 (2021: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2021: £40,000,000) provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required and have a maturity date of July 2025 and July 2024 respectively. These facilities were renewed on 24 June 2020 and use SONIA as the reference rate and have sustainability performance measures included.

Company

At 31 March 2022 and 31 March 2021, the company had no available liquidity and no available undrawn borrowing facilities.

Maturity analysis

Additional risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the group's non-derivative financial liabilities (borrowings and lease liabilities) with agreed repayment periods on an undiscounted basis.

Group

At 31 March 2022	**1 year or less**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Non-derivatives	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	**53,017**	**38,836**	**39,004**	**39,176**	**289,348**	**1,262,651**	**1,722,032**
Bank term loan	**697**	**42,172**	**-**	**-**	**-**	**-**	**42,869**
Lease liabilities	**3,545**	**2,849**	**2,469**	**1,161**	**170**	**1**	**10,195**
	57,259	**83,857**	**41,473**	**40,337**	**289,518**	**1,262,652**	**1,775,096**

At 31 March 2021	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
	£000	£000	£000	£000	£000	£000	£000
Non-derivatives							
Bonds	38,464	52,561	38,255	38,411	38,571	1,377,401	1,583,663
Bank term loan	1,241	1,241	41,283	-	-	-	43,765
Lease liabilities	3,339	2,808	2,138	1,781	769	179	11,014
	43,044	56,610	81,676	40,192	39,340	1,377,580	1,638,442

On 2 September 2022, Affinity Water Holdco Finance Limited refinanced its £42,000,000 bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years. The facility also contains an uncommitted accordion feature to increase the loan size to £75,000,000.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Company

The company has no non-derivative financial liabilities.

The maturity profile in the following table represents the forecast future net cash flows in relation to the group's derivatives estimated using the forward rates applicable at the year end.

Group

At 31 March 2022	**1 year or less**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Derivatives	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
RPI linked inflation swaps net payment/ (receivable)	**(7,233)**	**(7,131)**	**(7,026)**	**(6,920)**	**38,297**	**-**	**9,987**
CPI linked inflation swaps net payment/ (receivable)	**(6,773)**	**(6,717)**	**(6,660)**	**(6,603)**	**(6,545)**	**24,484**	**(8,814)**
Total derivatives	**(14,006)**	**(13,848)**	**(13,686)**	**(13,523)**	**31,752**	**24,484**	**1,173**

At 31 March 2021	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Derivatives	£000	£000	£000	£000	£000	£000	£000
RPI linked inflation swaps net payment/ (receivable)	(7,439)	(7,575)	(7,479)	(7,382)	(7,283)	15,080	(22,078)
CPI linked inflation swaps net payment/ (receivable)	(7,057)	(7,004)	(6,951)	(6,897)	(6,843)	(1,652)	(36,404)
Total derivatives	(14,496)	(14,579)	(14,430)	(14,279)	(14,126)	13,428	(58,482)

Company

The company has no derivative instruments.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash). The financial assets that are subject to the expected credit loss model are trade and other receivables, contract assets relating to the unbilled accrual for metered customers and cash and cash equivalents. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is nil.

Contract assets and trade and other receivables

The group applies the IFRS 9 simplified approach for measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and overdue days. Contract assets relate to unbilled metered consumption and have substantially the same risk characteristics as trade receivables for the same types of contract. The group has therefore concluded that expected loss rates for trade receivables are a reasonable approximation for loss rates for contract assets.

The group manages its credit risk of trade and other receivables through effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the group's customer base consisting of a large number of unrelated households and non-household retailers. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises, including domestic dwellings. However, allowance is made by Ofwat, in revenue limits at each price review for a proportion of receivables deemed to be irrecoverable.

With the exception of retail customers operating in the non-household retail market, expected credit losses for receivables are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivables which are considered to be of greater risk and also to trade receivables of greater age; these receivables have higher expected credit losses. The group's policy is to write-off closed and live accounts that fall under the following categories: bankruptcy, liquidation, debt relief orders, deceased accounts where there is no estate, failed legal action and receivable amounts from customers who have moved out of the property with no forwarding address or are no longer responsible for payment of a water bill; the group concludes that there is no reasonable expectation of recovery under these circumstances. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses, for example Covid-19 or the increased cost of living currently impacting the group's customers.

Amounts are also written off on accounts where the group is still supplying the customer and where all reasonable internal and external debt collection activities have been undertaken. Under these circumstances, if the total receivable contains amounts over six years old, the amount over six years old or more is written off. The group's write-off policy on household receivables has remained unchanged and has been consistently applied in the current year compared with the previous year.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

Since 1 April 2017, the group has supplied wholesale water to third party retailers operating in the non-household market. Retailers operating in the non-household market have been granted a licence by Ofwat, with the financial resources of the retailer assessed on licence application and monitored on a continual basis. The group uses this assurance and monitors the recoverability of these receivables by assessing cash collection rates since market opening to ensure any uncertain receivables are provided for. At each reporting date the group takes into consideration any significant economic changes that may impact the recoverability of these receivables and future credit losses.

The group has concluded that, given the nature of its financing arrangements, the procedure currently in place to assess the impairment of financial instruments detailed above is deemed sufficient under the expected credit loss model; historical recoverability of trade receivables has shown to be a good indicator of future expected losses, both in the next 12 months and across the lifetime of the instrument.

At each reporting date management takes into consideration any significant economic changes that may impact the model and future credit losses. Therefore, the directors of the group do not believe there is any further credit risk provision required in excess of the expected credit losses of trade receivables (see note 12).

The loss allowance as at 31 March 2022 and 31 March 2021 was determined as follows for trade receivables, receivables transferred upon sale of subsidiary and contract assets (unbilled accrual for metered customers):

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

Group

At 31 March 2022 (£000)	Current	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
Expected loss rate – metered household receivables	0.28%	0%	3%	10%	25%	49%	100%	
Gross carrying amount – metered household receivables	-	-	17,394	4,283	2,207	1,590	1,878	27,352
Gross carrying amount – unbilled accrual for metered customers (household)	40,948	-	-	-	-	-	-	40,948
Gross carrying amount – unbilled accrual for metered customers (non-household)	-	3,505	-	-	-	-	-	3,505
Provision at expected loss rate	101	-	448	448	545	781	1,878	4,201
Additional provision	-	-	2,177	-	-	-	-	2,177
Amounts provided at 100%	-	-	1,714	3,406	2,767	2,120	2,448	12,455
Loss allowance	101	-	4,339	3,854	3,312	2,901	4,326	18,833

	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
Expected loss rate – unmetered household receivables	0%	3%	7%	17%	42%	100%	
Gross carrying amount – unmetered household receivables	-	6,453	2,859	1,686	1,070	1,554	13,622
Provision at expected loss rate	-	175	191	290	451	1,554	2,661
Additional provision	-	857	-	-	-	-	857
Amounts provided at 100%	-	332	2,559	2,377	1,854	2,405	9,527
Loss allowance	-	1,364	2,750	2,667	2,305	3,959	13,045

	Less than 1 year	1-2 years	More than 2 years past due	Total
Expected loss rate – non-household receivables	0%	0%	100%	
Gross carrying amount – non-household receivables	-	-	10,264	10,264
Loss allowance	-	-	10,264	10,264

	Less than 3 months	3 – 6 months	6 – 9 months	9 – 12 months	More than 12 months past due	Total
Expected loss rate – developer services	0%	34%	38%	14%	86%	
Gross carrying amount – developer services	917	389	230	978	1,047	3,561
Loss allowance	-	131	88	140	901	1,260
						43,402

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

At 31 March 2021 (£000)	**Current**	**Current**	**Less than 1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**More than 4 years past due**	**Total**
Expected loss rate – metered household receivables	0.14%	0%	2%	7%	16%	33%	100%	
Gross carrying amount – metered household receivables	-	-	15,679	3,506	2,119	1,344	1,649	24,297
Gross carrying amount – unbilled accrual for metered customers (household)	36,793	-	-	-	-	-	-	36,793
Gross carrying amount – unbilled accrual for metered customers (non-household)	-	2,710	-	-	-	-	-	2,710
Provision at expected loss rate	51	-	236	238	329	443	1,649	2,946
Additional provision	-	-	1,612	-	-	-	-	1,612
Amounts provided at 100%	-	-	3,748	4,192	3,230	1,979	1,614	14,763
Loss allowance	**51**	**-**	**5,596**	**4,430**	**3,559**	**2,422**	**3,263**	**19,321**

	Current	**Less than 1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**More than 4 years past due**	**Total**
Expected loss rate – unmetered household receivables	0%	2%	5%	11%	27%	100%	
Gross carrying amount – unmetered household receivables	-	5,845	3,084	1,630	1,105	1,402	13,066
Provision at expected loss rate	-	114	139	186	297	1,402	2,138
Additional provision	-	734	-	-	-	-	734
Amounts provided at 100%	-	2,635	3,023	2,544	1,850	684	10,736
Loss allowance	**-**	**3,483**	**3,162**	**2,730**	**2,147**	**2,086**	**13,608**

	Less than 1 year	**1-2 years**	**More than 2 years past due**	**Total**
Expected loss rate – non-household receivables	0%	63%	93%	
Gross carrying amount – non-household receivables	-	6,390	4,629	11,019
Loss allowance	**-**	**4,010**	**4,309**	**8,319**

	Less than 3 months	**3 – 6 months**	**6 – 9 months**	**9 – 12 months**	**More than 12 months past due**	**Total**
Expected loss rate – developer services	0%	43%	59%	70%	100%	
Gross carrying amount – developer services	1,569	353	184	240	724	3,070
Loss allowance	**-**	**150**	**108**	**167**	**724**	**1,149**

Total loss allowance	**42,397**

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2022 is shown in note 12.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

Company

The company has no loss allowance for trade receivables and contract assets.

At 31 March 2022 and 31 March 2021, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

Group

	2022	2021 (restated)
	£000	£000
Cash and term deposits (note 14)	**150,404**	99,579
Short-term deposits (note 9)	**70,179**	15,132
Trade and other receivables (excluding prepayments and amounts recoverable from the group's insurer)	**98,363**	91,397
	318,946	206,108

The prior year has been restated to reclassify trade receivables credit balances to payments received in advance. Further details are included on pages 72 to 73.

Company

The company has no such financial assets.

The group manages its risk from treasury activities by ensuring counterparties meet the minimum credit requirements approved by the Affinity Water Limited Board, which include a maximum peak exposure limit and minimum credit rating. Credit exposure is monitored regularly by the group's treasury function and is reported quarterly to the Affinity Water Limited Board through the Treasury Report.

The breakdown of cleared cash and cash equivalents and short-term deposits treated as investments exposed to credit risk at each of the credit ratings per Standard & Poor's at 31 March is:

Group

	2022	2021
	£000	£000
AAA	**101,125**	41,116
A-1+	**35,048**	-
A-1	**82,012**	66,911
A-2	**-**	5,084
	218,185	113,111

These are all short-term ratings.

Company

The company has no cash and cash equivalents.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Interest rate and inflation risk

The group seeks to manage its interest rate risk by maintaining its exposure within a Board approved range, primarily through using a mixture of fixed, inflation linked and floating rate borrowings. An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), was entered into in August 2018 as this was the most efficient way to switch to a higher proportion of index linked debt. A further RPI linked inflation swap with a nominal value of £75.0m, also linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), was entered into in October 2020, although backdated to 1 August 2020. A series of CPI linked inflation swaps with a total nominal value of £250.0m, linked to the maturity of the Class A fixed rate £250.0m bond (March 2036), were entered into between March 2020 and June 2020.

These swaps will lead to net interest receivable cashflow over the life of the swaps, which is expected to increase the headroom against our covenant limits, offset by an accretion payment on maturity. Movements in RPI/CPI forward rates create fair value profits or losses, which will flow through the income statement.

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV. To the extent that nominal debt liabilities finance a proportion of the RCV, there is an asset liability mismatch which potentially exposes the group to the risk of economic loss where actual inflation is lower than that implicitly locked in through nominal debt. The group's index-linked borrowings, which are linked to inflation, form a partial economic hedge of the group's regulatory assets, which are also linked to inflation.

Interest rate and inflation risks are reported quarterly to the Affinity Water Limited Board through the Treasury Report.

The interest rate profile of the group's debt is as follows:

As at	Fixed rate debt £000	RPI-linked debt £000	CPI-linked debt £000	Total £000
31 March 2022	**809,387**	**520,761**	**216,387**	**1,546,535**
31 March 2021	824,041	501,754	62,480	1,388,275

The company had no debt at 31 March 2022 or 31 March 2021.

Sensitivity analysis

Sensitivity analysis has not been performed on movements in interest rates as the group's fixed rate debts had no exposure to interest rates as at 31 March 2022. The following table details the sensitivity of (loss)/profit before taxation to changes in RPI and CPI on the group's index-linked borrowings, RPI linked inflation swap and CPI linked inflation swap. The analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year.

Impact on loss before taxation	2022 £000	2021 £000
1% increase in RPI	**(3,872)**	(3,559)
1% decrease in RPI	**3,872**	3,640
1% increase in CPI	**(2,406)**	(630)
1% decrease in CPI	**1,600**	631

A4. Financial instruments and risk management (continued)

Energy price risk

The company is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the company to volatility in its operating cash flows. The company has mitigated this risk by fixing the price on a proportion of its anticipated electricity usage out to the end of AMP7 through entering into electricity swap contracts.

Currency risk

The group has no material net exposure to movements in currency rates.

Capital risk management

The gearing policy approved by the Board of Affinity Water Limited is a target, measured as net debt (as defined in Affinity Water Limited's WBS documentation) to RCV, of 80%. This allows sufficient headroom within the group's financial covenants, which are triggered at a level of more than 90%. Affinity Water Limited's gearing on this basis was 73.0% at 31 March 2022 (76.0% at 31 March 2021).

Assuming no significant changes to existing credit rating agencies' methodologies or sector risk assessments, the group aims to maintain its existing credit ratings of A3 with Moody's, BBB+ with Standard & Poor's and BBB+ with Fitch for the Class A bonds issued by its financing subsidiaries. These ratings are used by the industry's economic regulator, Ofwat, to assess the group's ability to comply with its licence requirement to maintain an investment grade credit rating.

The group looks to manage its risk by monitoring and maintaining the relevant key financial ratios used by the credit rating agencies to determine the credit ratings given. Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies. Gearing and credit ratings are reported quarterly to the Board of Affinity Water Limited through the Treasury Report.

A5. Retirement benefits

Defined benefit section

The group's pension plan providing benefits based on final pensionable salary is closed to new members (the two precursor plans closing in April 1996 and September 2004). The assets of the AWPP are held separately from those of the group. The plan's corporate trustee (the 'Trustee') is a subsidiary of the group.

The risks of the plan are as follows:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields. If plan assets underperform this yield, this will create a deficit.

The assets of the plan include a proportion of equities, which are expected to outperform corporate bonds in the long term while providing volatility and risk in the short-term. As the plan has matured, the Trustee has commenced reducing the level of investment risk and will be investing more in assets that better match the liabilities of the plan and expected cash outflows based on the plan's maturity profile.

The group believes that due to the strength of its business and the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Trustee's long-term strategy to manage the plan efficiently.

Changes in bond yield

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of its members, so increases in life expectancy will result in an increase in the plan's liabilities.

Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation).

Investment strategy

Following a Trustee investment strategy review in 2018/19, and the focus towards a 'cashflow driven investment' strategy, the Trustee implemented the following changes to the plan's portfolio at that time:

- increased the level of interest rate and inflation hedging provided by the plan's assets from 90% to 92.5%, subsequently rebalanced to 90% in December 2021; and
- introduced a new segregated actively managed investment 'liability driven investment/cashflow driven investment' portfolio managed by Insight Investment Management Limited, which is expected to provide stable returns and regular income to meet the plan's outgoings.

A5. Retirement benefits (continued)

Defined benefit section (continued)

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2020, which concluded that the pension plan was 96% funded on a self-sufficiency basis. This actuarial valuation was made on the 'attained age' funding method, based on the following assumptions:

RPI inflation:	measured by reference to the Bank of England gilt inflation curve
CPI inflation:	measured by reference to the RPI inflation curve described above less 1.0% per annum pre-2030 and less 0% per annum post-2030
Pre-retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum
Post retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum
Salary increases:	measured by reference to the CPI inflation curve described above plus 0.5% per annum
Deferred pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars
Pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars

Defined benefit section – employer contributions

Based on the latest actuarial valuation at 31 December 2020, and to eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the group agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022 onwards.

The contributions expected to be paid by the group into the AWPP for the year ending 31 March 2023 are therefore £1,600,000 (£5,000,000 in the year ended 31 March 2022, based on the former Schedule of Contributions and dependent on the outcome of the actuarial valuation as at 31 December 2020 being undertaken at the time).

The weighted average duration of the defined benefit obligation is 16.5 years (2021: 17.5 years).

Defined benefit section - financial and demographic assumptions

Adjustments to actuarial valuations have been made based on the following assumptions:

	2022	2021
Discount rate	**2.70% pa**	1.95% pa
Salary growth	**3.60% pa**	3.25% pa
RPI	**3.65% pa**	3.25% pa
CPI	**3.10% pa**	2.75% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**24**	23
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	26

Deferred pensions are revalued to retirement age in line with the CPI assumption of 3.10% per annum (2021: 2.75% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section - sensitivity analysis

The below sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit asset to significant actuarial assumptions, the same method (present value of the defined benefit asset calculated using the projected unit credit method at the end of the reporting year) has been applied as when calculating the pension asset recognised within the statement of financial position.

	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
2022				
Discount rate	**0.5% decrease**	**8.6% increase**	**0.5% increase**	**7.6% decrease**
Salary growth	**0.5% increase**	**0.8% increase**	**0.5% decrease**	**0.7% decrease**
Pension growth rate	**0.5% increase**	**6.8% increase**	**0.5% decrease**	**6.1% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
2021				
Discount rate	0.5% decrease	9.2% increase	0.5% increase	9.2% decrease
Salary growth	0.5% increase	0.9% increase	0.5% decrease	0.9% decrease
Pension growth rate	0.5% increase	7.5% increase	0.5% decrease	7.5% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

Defined benefit section - net retirement benefit surplus

At 31 March, the fair values of the plan's assets recognised in the statement of financial position were as follows:

	Plan assets %	**2022 £000**	Plan assets %	2021 £000
Equity securities	**7%**	**37,244**	6%	33,415
Debt securities	**71%**	**391,729**	73%	392,880
Property	**0%**	**156**	0%	266
Infrastructure	**1%**	**3,388**	2%	9,575
Liability driven investments	**15%**	**80,555**	13%	70,344
Cash and cash equivalents	**6%**	**34,481**	6%	33,941
Total fair value of the plan's assets	**100%**	**547,553**	100%	540,421
Present value of defined benefit obligations		**(443,306)**		(465,889)
Net retirement benefit surplus		**104,247**		74,532

The total of assets that are quoted is £441,737,000 (2021: £416,456,000) and the total of assets that are unquoted is £105,765,000 (2021: £123,914,000).

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section - fair value of plan assets

Movements in the fair value of the plan's assets were as follows:

	£000	£000
At 1 April 2021 / 1 April 2020	**540,421**	501,527
Benefits paid	**(15,301)**	(16,395)
Employer contributions	**3,539**	2,948
Contributions by plan participants	**215**	552
Interest income	**10,430**	11,416
Re-measurement gains	**8,249**	40,373
At 31 March 2022 / 31 March 2021	**547,553**	540,421

Defined benefit section - present value of plan liabilities

Movements in the present value of the defined benefit liabilities are as follows:

	£000	£000
At 1 April 2021 / 1 April 2020	**(465,889)**	(396,908)
Benefits paid	**15,301**	16,395
Contributions by plan participants	**(215)**	(552)
Current service cost	**(4,061)**	(3,310)
Past service cost	**-**	(31)
Interest expense	**(8,942)**	(8,948)
Re-measurement gains/(losses)	**20,500**	(72,535)
At 31 March 2022 / 31 March 2021	**(443,306)**	(465,889)

Defined contribution section

At the same time that the defined benefit section became closed to new entrants, the group established a defined contribution section to provide pension benefits to qualifying employees.

The total pension charge for the defined contribution section of the AWPP for the year ended 31 March 2022 was £3,677,000 (2021: £3,573,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2022 (2021: £nil).

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A6. Subsidiaries

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Acquisitions (Investments) Limited*	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions (Holdco) Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions (Midco) Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Capital Funds Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding and investment company	Ordinary shares	100%
Affinity Water Holdco Finance Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Finance company	Ordinary shares	100%
Affinity Water Holdings Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Water supply	Ordinary shares	100%
Affinity Water Finance (2004) PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Finance company	Ordinary shares	100%
Affinity Water Finance PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Finance company	Ordinary shares	100%
Affinity Water East Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Investment company	Ordinary shares	99%
				Ordinary non-voting shares	88%
				10% preference shares	98%
Affinity Water Southeast Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Investment company	Ordinary shares	99%
				Ordinary non-voting shares	92%
				14% preference shares	98%

* held directly by Daiwater Investment Limited

A6. Subsidiaries (continued)

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Shared Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Service company	Ordinary shares	100%
Affinity Water Pension Trustees Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Pension trustee	Ordinary shares	100%
Three Valleys Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
Tendring Hundred Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
Folkestone and Dover Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
White Cliffs Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%

* held directly by Daiwater Investment Limited

A7. Related party transactions

Group

Purchases of goods and services and dividends paid

			2022		2021	
Related party	**Nature of Relationship**	**In respect of**	**Value £000**	**Balance £000**	Value £000	Balance £000
Allianz Capital Partners, DIF and HICL Infrastructure plc	Shareholders	Dividends	**-**	**-**	17,000	-
Allianz Global Corporate & Speciality	Common ownership	Insurance	**1,701**	**(616)**	2,093	(1,084)
Allianz Insurance	Common ownership	Insurance	**539**	**(539)**	-	-
Allianz Engineering	Common ownership	Insurance	**-**	**-**	1	-
SSE plc	Shared director (up until 29 January 2021)	Electricity	**-**	**-**	21,965	-

See notes 3.3 and 3.4 for directors' remuneration and key management personnel compensation disclosures respectively.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A7. Related party transactions (continued)

Group (continued)

Sales of goods and services

Related party	Nature of relationship	In respect of	2022 Value £000	2022 Balance £000	2021 Value £000	2021 Balance £000
Vistry Group plc	Shared director	Connection charges	**4**	**-**	2	-

Company

Purchases of goods and services and dividends paid

Related party	Nature of Relationship	In respect of	2022 Value £000	2022 Balance £000	2021 Value £000	2021 Balance £000
Allianz Capital Partners, DIF and HICL Infrastructure plc	Shareholders	Dividend	**-**	**-**	17,000	-

Sales of goods and services and dividends received

Related party	Nature of Relationship	In respect of	2022 Value £000	2022 Balance £000	2021 Value £000	2021 Balance £000
Affinity Water Acquisitions (Investments) Limited	Subsidiary undertaking	Dividend	**-**	**-**	1,213	-
Affinity Water Capital Funds Limited	Subsidiary undertaking	Loans receivable and interest	**-**	**-**	419	-